

Hisense 海信科龙

海信科龍電器股份有限公司

Hisense Kelon Electrical Holdings Company Limited

Stock Code: 00921

Annual Report 2017

Hisense



2018年FIFA世界杯
官方赞助商



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Company Profile

Hisense Kelon Electrical Holdings Company Limited (the “Company”) is a major manufacturer of white household electrical appliances in the People’s Republic of China (the “PRC” or “China”) under the brand names Hisense, Kelon and Ronshen, each of which have been recognised as “Well-known Trademarks in China”. Founded in 1984 and headquartered in Shunde District, Guangdong Province, the PRC, the Company is principally engaged in research and development, production and marketing of white household electrical appliances such as refrigerators, air-conditioners, washing machines, freezers and kitchen electrical appliances, as well as after-sale service. Its manufacturing bases are located in cities across the country, including Qingdao (Shandong Province), Shunde (Guangdong Province), Jiangmen (Guangdong Province), Yangzhou (Jiangsu Province), Huzhou (Zhejiang Province), and Chengdu (Sichuan Province). In 1996 and 1999 respectively, the Company’s shares were listed on the main boards of The Stock Exchange of Hong Kong Limited (“the Hong Kong Stock Exchange”) and the Shenzhen Stock Exchange.

Refrigerators and washing machines business: Refrigerators and washing machines comprise one of the Company’s principal businesses. In this sector, the Company’s Hisense and Ronshen brands are among the most well-known in China, with Ronshen refrigerators ranked first in terms of the market share for the last 11 consecutive years.

Residential Air-conditioning business: Under its well-known Hisense and Kelon air-conditioner brands, the Company was the first to commit to the research and development, production and promotion of inverter air-conditioners in China. Having years of experience, the Company has maintained a consistent focus on developing technological innovations for inverter air-conditioners, improving product quality, and upgrading its industrial capabilities. This has enabled it to lead the development of national standards for inverter air-conditioners, and has earned a reputation as the industry’s “inverter expert”.

Central Air-conditioning business: Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.(“Hisense Hitachi”) was established in 2003 (the Company holding 49% of its equity interest). A strong competitor in the central air-conditioner market, in terms of market share the brand ranks first in multi-split central air-conditioners for construction projects, and second for retail residential multi-split central air-conditioners.

With the support of its strong technical team, the Company will continue to follow its “technology orientation and prudent operation” strategy of development, and its operating thought of “creating quality products, enhancing customer value, raising system efficiency, accelerating business expansion, expanding the international market”. It will increase the competitiveness of its products through technological innovation, improved quality and added value of the products. Overall, the Company’s integrated capabilities will be continuously enhanced, including in the areas of technology, product grade, market scale, profitability and sustainability, to support a steady growth in scale, efficiency and market share.

Major Events Calendar

JANUARY

“Hisense Refrigerator Yu Chen Public Welfare Grant” was established to fund the education of children from deprived areas.

FEBRUARY

Hisense “Chinese-style Refrigerator” receives a 2017 iF Product Design Award – the “Oscar” of industrial design – at the iF Hannover Industrial Design Forum in Germany.

Hisense becomes the first washing machine brand to meet stringent industry standards for dissolved matter limits and test methods for household and similar electrical appliances. It is also the first to meet ‘food-grade’ laundry standards.

MARCH

Hisense’s “Male Idol” air-conditioner receives the AWE2017 Appliance Innovation Award at the PRC Appliance & Electricals World Expo.

APRIL

Gao Liwen joins Ronshen Refrigerator as its new spokesperson, appearing with honorary brand ambassador Liza Wang at the handover ceremony. Gao will help bring Ronshen Refrigerator into the hearts and minds of a youthful new generation of customers.

MAY

The Company’s Hisense, Ronshen and Kelon brands are placed in the ‘CCTV Chinese Brand List’s household appliance category.

JUNE

Hisense becomes the first PRC central air-conditioning brand compatible with Apple’s HomeKit Smart platform.

Hisense’s “T-door Refrigerator” is the industry’s first to achieve A+ level sterilisation performance.

SEPTEMBER

Hisense’s “Master” three-drum washing machine – the world’s first triple washer – receives an IFA Product Technical Innovation Award and a Product Design Innovation Gold Award from the German Chamber of Commerce and Industry and the International Data Group of America.

NOVEMBER

Hisense air-conditioner series products is named on the “Green Product Leaders 2017” (綠色環保產品領跑榜) list and win the International Award on Green Design 2017.

DECEMBER

Entitled “Interconnection between JD and Hisense, Foresight of Brilliant Chances”, the launching ceremony for the 2017 Hisense & JD Intelligent Strategic Cooperation cum New Product Conference of JD-Hisense Intelligent Refrigerator was held.

Company subsidiary Hisense Ronshen (Guangdong) Refrigerator Co., Ltd. is among the first batch of household appliance-makers in Guangdong to be accredited for “same product line, same standards, same quality” in domestic and overseas sales.

In the Chinese air-conditioning industry’s annual meeting, the Hisense “Male Idol X” air conditioner win the “High-end Benchmark Award of Chinese Air-conditioner Industry in 2017” (2017年中國空調產業高端標杆獎) and Hisense air-conditioner is named as the “2017 Leading Intelligent Brand in Chinese Air-conditioning Industry”.

Chairman's Statement

Dear Shareholders:

I am pleased to present the annual report of the Company for the year ended 31 December 2017 (the "Reporting Period") for shareholders' review.

During the Reporting Period, domestic refrigerator sales remained weak during the Reporting Period. According to inferential statistics from the China Market Monitor Company Limited ("CMM"), in 2017, cumulative retail volume in the refrigerator sector grew by only 3.7% year-on-year. By contrast, the air-conditioner market had an impressive performance. According to inferential statistics from CMM, in 2017, cumulative retail volume in the air-conditioner market grew by 27.5% year-on-year. The performance of the central air-conditioner sector was also satisfactory. According to statistics from www.aicon.com.cn, in 2017, the domestic central air-conditioner market grew by approximately 20% year-on-year. Performance in the export market remained stable. According to Customs statistics, in 2017, the export volume of refrigeration products grew by 11.5% year-on-year, while the export volume of air-conditioning products grew by 11.5% year-on-year.

The current structural optimisation of white goods products and upgraded consumption in the PRC are being driven by continuing supply-side structural reform. CMM statistics show the offline cumulative retail market share of French-style refrigerators increased by 5.8 percentage points year-on-year in 2017, while the offline cumulative retail market share of side-by-side refrigerators increased by 1.9 percentage points year-on-year. Offline cumulative retail market share for artistic cabinet air-conditioners in the offline cabinet air-conditioner market increased by 6.1 percentage points year-on-year; and for the offline cumulative retail market share APF Class I inverter air-conditioners increased by 16 percentage points year-on-year.

With the emerging era of "artificial intelligence 2.0", consumers' increasing demand for a quality home life poses new challenges and demands new ideas in the development of household appliance enterprises. Enterprises are taking a demand-oriented approach, focusing on future developing intelligent technologies and enhancing user experience.

During the Reporting Period, faced with the complexity of international and domestic economic conditions, the Company persisted in its operational direction of "strengthening the high-end strategy, expanding the high-quality network, enhancing system efficiency, accelerating the industrial expansion, expanding into international markets, ensuring the economies of scale", and implemented various tasks to steadily improve its scale and efficiency. The Company achieved operating revenues of RMB33.488 billion, representing a year-on-year increase of 25.28%, and principal operating revenue of RMB30.43 billion, representing a year-on-year increase of 23.34%. Revenue from the refrigerator and washing machine business accounted for 46.37% of the principal operating revenue, representing a year-on-year increase of 10.43%; and revenue from the air-conditioner business accounted for 47.94% of the principal operating revenue, representing a year-on-year increase of 40.52%. The domestic sales business recorded a principal operating revenue of RMB20.575 billion, representing a year-on-year increase of 26.94%, whereas the export sales business recorded a principal operating revenue of RMB9.855 billion, representing a year-on-year increase of 16.46%. Net profits attributable to shareholders in the listed company reached RMB1.998 billion, representing a year-on-year increase of 83.64%, in which net profits after deducting non-recurring gains or losses were RMB1.013 billion, representing a year-on-year increase of 1.49%. Earnings per share were RMB1.47.

During the Reporting Period, the refrigerator and washing machine business adhered to a high-end strategy, and new products were launched to the market as scheduled, the Company's share of the high-end market share increased. Key indicators for the quality of its refrigerators and washing machines and early return rates has significantly improved, and earned the Company an upgrade from "quality assurance" to "win by quality". The Residential air-conditioner business strengthened its foundations for breakthroughs and promoted continuous innovation in key and core technologies and actively grasped the increment in the industry and consumption upgrades which achieved a significant increase in its scale and benefits. The central air-conditioning business kept with its management philosophy of "integrity, professionalism, quality and exquisiteness", focused on products and users, exceeded its operational goals while relevant financial indicators such as operating revenues, operating profits and operating cash flow all continuously improved. Additionally, market share steadily increased.

Chairman's Statement

Looking forward to 2018, expectations for the market scale demand for refrigerators and air-conditioners tend to diminish. According to estimated statistics from CMM, sales volume for refrigerators in 2018 is expected to increase by 4% year-on-year, while sales volume for air-conditioners will drop by 5% year-on-year. Taking the increasing costs of raw material, logistics, manpower and labour into consideration, the great operational and developmental pressures on enterprises persists. On the other hand, full implementation of the “rural revitalisation strategy” will increase rural income levels and their purchasing power, bringing policy benefits to white goods enterprises. In addition, the continuing upgrade of consumption in the white goods market, the gradual increase of replacement demand in the refrigerator market, and the accelerated integration of online and offline channels are creating new opportunities for the enterprises' operations.

In 2018, the Company will maintain its overall concept of “creating products with high quality, enhancing customer value, accelerating industrial development, expanding international market”, creating high quality products that embrace customer value, improving operational capabilities and enhancing scale and market share of e-commerce, laying down a solid managerial foundation to improve system efficiency, improving product quality and facilitating industrial development, improving product competitiveness, enhancing export scale and efficiency and improving capital efficiency to achieve sustainable development.

In 2017, the business development of the Company has received the care and strong support from all shareholders, general staff, financial institutions, partners and the government. I would like to express my gratitude to every one of them and hope to receive your continued support in the forthcoming year. We believe that our objectives will be gradually achieved through careful and in-depth planning. With the concerted efforts and commitment of our staff, a brand-new corporate spirit and pragmatic style of work as driving forces of the enterprise to take on the challenges ahead, the development of the Company will be advanced. I also earnestly look forward to sharing a better future of Hisense Kelon with you all.

Tang Ye Guo
Chairman

The PRC, 29 March 2018

Discussion and Analysis of Operation

I. INDUSTRY OVERVIEW

Domestic refrigerator sales remained weak during the Reporting Period. According to inferential statistics from the China Market Monitor Company Limited (“CMM”), in 2017, cumulative retail volume in the refrigerator sector grew by only 3.7% year-on-year. By contrast, the air-conditioner market had an impressive performance. According to inferential statistics from CMM, in 2017, cumulative retail volume in the air-conditioner market grew by 27.5% year-on-year. The performance of the central air-conditioner sector was also satisfactory. According to statistics from www.aicon.com.cn, in 2017, the domestic central air-conditioner market grew by approximately 20% year-on-year. Performance in the export market remained stable. According to Customs statistics, in 2017, the export volume of refrigeration products grew by 11.5% year-on-year, while the export volume of air-conditioning products grew by 11.5% year-on-year.

The current structural optimisation of white goods products and upgraded consumption in the PRC are being driven by continuing supply-side structural reform. CMM statistics show the offline cumulative retail market share of French-style refrigerators increased by 5.8 percentage points year-on-year in 2017, while the offline cumulative retail market share of side-by-side refrigerators increased by 1.9 percentage points year-on-year. Offline cumulative retail market share for artistic cabinet air-conditioners in the offline cabinet air-conditioner market increased by 6.1 percentage points year-on-year; and for the offline cumulative retail market share APF Class I inverter air-conditioners increased by 16 percentage points year-on-year.

With the emerging era of “artificial intelligence 2.0”, consumers’ increasing demand for a quality home life poses new challenges and demands new ideas in the development of household appliance enterprises. Enterprises are taking a demand-oriented approach, focusing on future developing intelligent technologies and enhancing user experience.

II. ANALYSIS OF THE COMPANY’S OPERATION

During the Reporting Period, faced with the complexity of international and domestic economic conditions, the Company persisted in its operational direction of “strengthening the high-end strategy, expanding the high-quality network, enhancing system efficiency, accelerating the industrial expansion, expanding into international markets, ensuring the economies of scale”, and implemented various tasks to steadily improve its scale and efficiency. The Company achieved operating revenues of RMB33.488 billion, representing a year-on-year increase of 25.28%, and principal operating revenue of RMB30.43 billion, representing a year-on-year increase of 23.34%. Revenue from the refrigerator and washing machine business accounted for 46.37% of the principal operating revenue, representing a year-on-year increase of 10.43%; and revenue from the air-conditioner business accounted for 47.94% of the principal operating revenue, representing a year-on-year increase of 40.52%. The domestic sales business recorded a principal operating revenue of RMB20.575 billion, representing a year-on-year increase of 26.94%, whereas the export sales business recorded a principal operating revenue of RMB9.855 billion, representing a year-on-year increase of 16.46%. Net profits attributable to shareholders in the listed company reached RMB1.998 billion, representing a year-on-year increase of 83.64%, in which net profits after deducting non-recurring gains or losses were RMB1.013 billion, representing a year-on-year increase of 1.49%. Earnings per share were RMB1.47.

During the Reporting Period, the Company continued optimising its internal workflows, accelerating the turnover of capital, reducing its inventory level and increasing its efficiency in capital utilisation. Turnover of inventories was accelerated by 2.89 days year-on-year while turnover of accounts receivable was accelerated by 2.53 days year-on-year. The Company’s gearing ratio has significantly improved, which has decreased by 4.44 percentage points from the beginning to the end of the Reporting Period.

The Company continued to develop and introduce innovative new technologies and products while exploring user demands. It has established and fully implemented an operating strategy of “developing satisfactory products with high quality” to significantly enhance the quality, exquisiteness and intelligence of its products. The major works of each business are as follows:

Discussion and Analysis of Operation

1. The Refrigerator and Washing Machine Business

During the Reporting Period, the domestic refrigerator market continued to show a lack of growth momentum. Due to the sluggish growth and other unfavourable factors such as continuous rise in raw material prices, the profitability of the Company's refrigerator and washing machine business declined. The Company responded by solidifying its operational foundations and strength, curbing declining operational trends and preparing for the recovery of profitability. In the fourth quarter of 2017, the gross profit margin improved by 0.8 percentage points compared to the third quarter.

The Company insisted on technology consolidation and product innovation and kept enhancing the level of technologies such as "purification", "energy efficiency", "instant cooling" and "remote control". The Company's "Research and Application of Intelligent and Parametric Control of Energy-saving Technology for Cross Side-by-side Frost-free Refrigerator ("十字對開無霜冰箱智能參數化控制節能技術研究及應用"項目) received a second prize in the Science and Technology Invention Awards from the China National Light Industry Council (中國輕工業聯合會). The Hisense Master series washing machines, the world's first three-drum washing machines, introduced by the Company, received various awards including the "AWE 2017 Appliance Design Award" (AWE2017艾普蘭設計獎), the "IFA Product Design Innovation Gold Award", the "Leader Innovation Award of the 6th China International Consumer Electronics Leader Innovation Awards" and "Product of the Year 2017" for their innovation in the aspects of product functions, outlook design and users' experiences. The Company's strategy of implementing "intelligence" was exemplified in the "JD-Hisense intelligent refrigerator" jointly introduced with JD. Developed as a component of the "Internet of Things", the unit enables users to check and manage food inventory via smartphone and make "one-click" purchases using its intelligent food identification function, which is a breakthrough in the development of the intelligent refrigerator. The Company adhered to a high-end strategy, and new products such as the Hisense "Tianji" refrigerator series, the Ronshen "Full Ecological" refrigerator series, and the Hisense "Master Washer" and "Warm Idol" washing machine series, were launched to the market as scheduled, increasing the Company's share of the high-end market share. According to CMM statistics, the Company's offline cumulative retail market share in side-by-side refrigerators was 19.9% in 2017, representing a year-on-year increase of 1.5 percentage points. The Company also constantly sought breakout opportunities in existing market segments by launching different new products such as the Hisense "Bingbing Upright" refrigerator, which promoted growth in scale. As to foundational work, the Company signed an endorsement contract with a "new generation" Ronshen brand spokesperson, sponsored China Central Television programmes, and launched a series of public welfare activities to gradually promote brand awareness. The Company boosted its cooperation with schools, enterprises and research institutes, and promoted the implementation of key quality projects. As a result, key indicators for the quality of its refrigerators and washing machines and early return rates have significantly improved, and earned the Company an upgrade from "quality assurance" to "win by quality". In a quality promotion conference for Guangdong household appliances, the Company's refrigerator products became the first in the industry to achieve "same production line, same standard and same quality" for both export and domestic sales. In terms of exports, the Company continued to expand in the key emerging overseas market. According to GFK statistics, Hisense refrigerators' cumulative market share of volume sales in Australia reached 18.4% in 2017, representing year-on-year increase of 2.6 percentage points, and ranking first in the industry. Hisense refrigerators' cumulative market share of volume sales in South Africa reached 27.7% in 2017, representing year-on-year increase of 1.9 percentage points, and ranking second in the industry.

2. The Residential Air-conditioner Business

During the Reporting Period, the domestic air-conditioner market maintained rapid growth as affected by exceptionally hot weather and a rising rigid demand in third-and fourth-tier markets. The Company actively grasped the increment in the industry and consumption upgrades which achieved a significant increase in its scale and benefits. The Company strengthened its foundations for breakthroughs and promoted continuous innovation in key and core technologies. Its "R&D and Application of Redundant Variables Analysis and Control Technology in Air-conditioner with Wide Climate Belt Project" ("變量冗餘分析控制技術在寬氣候空調器上的研發及應用項目") won second prize at the Science and Technology Progress Awards from the China National Light Industry Council. The Company emphasized on product innovation and committed to comprehensive upgrading its inverters, intelligence technologies and artistic pursuit. The Hisense "Male Idol" series (海信"男神"系列空調) and the upgraded Hisense "Male Idol X" series air conditioners introduced by the Company brought attention to humidity functions for the first time. Advanced intelligent technologies and outstanding design earned the "Male Idol" an "AWE2017 Appliance Innovation Award" ("AWE2017艾普蘭創新獎"); while "Male Idol X" won the "Highend

Discussion and Analysis of Operation

Benchmark Award of China's Air-conditioner Industry in 2017" (2017年中國空調產業高端標杆獎). The Company always focuses on environmental protection and green design, and Hisense air-conditioning series products were named as "Green Product Leaders 2017" and won the "International Award on Green Design 2017" at the Green Production & Consumption International Conference 2017. At the 13th Dragon Design Foundation Awards, the Company's research and development team was recognized as a "Pioneer Team of Green Design" in 2017. The Company insisted on high-end strategies, actively promoted high-end products, and introduced new products such as the Hisense "Male Idol" series air-conditioners, the Kelon "Tulip" (鬱金香系列) and "Silent Beauty" (靜美人系列) series air-conditioners while significantly improving its sales structure. According to CMM statistics, in the offline sales structure of inverter air-conditioner, air-conditioner products of "Hisense" with APF Class I energy efficiency accounted for 46.4% of its total retail sales, while air-conditioner products of "Kelon" with APF Class I energy efficiency accounted for 58.7% of its total retail sales; and the market share of inverter products has steadily increased. The offline cumulative retail market share for the Company's inverter cabinet stood at 10.41%, representing a year-on-year increase of 0.55 percentage point. Fundamentally, the Company worked to improve all aspects of product quality and indicators such as early return rates of products were optimized. The Company successively launched MES, WMS and CRM information systems to further improve the level of informatisation. The Company further consolidated and strengthened its sales channels and achieved satisfactory growth in the third and fourth tiers of the market by optimising its customer base, and expanding its high-quality network. The Company promoted the transformation of Kelon into a "youth brand", and at the 2017-18 China Air Conditioning Summit Forum, Kelon air-conditioning was recognised as the "preferred air-conditioner brand by young people". In respect of exports, the Company continued to vigorously explore overseas markets. According to Customs statistics, the export volume of air-conditioning products increased by 35% year-on-year, greatly exceeding the industry's 11.5% growth rate in 2017.

3. The Central Air-conditioner Business

In keeping with its management philosophy of "integrity, professionalism, quality and exquisiteness", Hisense Hitachi focused on products and users, devoted substantial effort to research and development, and facilitated lean management and efficient operation. During the Reporting Period, the Company exceeded its operational goals while relevant financial indicators such as operating revenues, operating profits and operating cash flow all continuously improved. Additionally, market share steadily increased. According to the 2017 National Report on the Central Air-conditioning Market (《2017年度中央空調市場全國報告》) issued by www.aircon.com.cn, Hisense Hitachi multi-couple unit products enjoy a market share of 22.2%, representing a year-on-year increase of 1.4 percentage points. Thanks to the outstanding performance of various brands, the multi-split unit business of Hisense Hitachi kept growing substantially, and household multi-split unit products in particular, maintained a dramatic increase in sales. Income derived from home products has increased rapidly for consecutive years. Hisense Hitachi acquired the York brand's domestic multi-split unit business, which was completed in February 2018, and this further expands the business scale.

The Company provided strong support for enhanced product performance and user experience through studies on variable-frequency drive technology, new efficient heat transfer technology, multi-split technology for independent control of temperature and humidity, and intelligent voice control technology. Its "Wind, Solar and New Energy-driven Compressor" project was awarded third prize in the Science and Technology Progress Awards by the China National Light Industry Council, while the "Silent Small Multi-split Central Air-conditioner with Higher Ratio of Cooling Capacity to Weight" project won a third prize at the China Machinery Industry Science and Technology Awards. By pursuing leadership through a development philosophy of "subsisting for centuries through technological innovation" and self-positioning as "The Future Pioneer", Hisense Hitachi maintained its pace of product innovation. The Hisense "G2 Series Full DC Inverter Central Air-conditioner" features outstanding energy efficiency (it can generate four units of heat from one unit of electricity), high quality and an excellent user experience. Other new introductions include the "Blue Flame" series air-source heat pump product for "coal-to-clean energy" projects in the north, and series of differentiated Hisense ultra-low temperature air cooled chiller products. The latter are specifically designed to meet heating demands in cold areas during winter, and can operate at a temperature as low as -26°C while discharging water at a temperature of 60°C.

Discussion and Analysis of Operation

Environmental policies and performance

The Company and its subsidiaries (the “Group”) is committed to achieve sustainable development of the environment and has integrated it into the daily operations of the Group. The Group continued to promote green measures and awareness in its daily business operations, complied with the “6S Management System” and implemented various green office measures, such as: two-sided printing and copying, promoting the use of recycle bags and turning off idle lights and electrical appliances to reduce energy consumption. The Group insisted on the development strategy of “technology orientation”, by launching technologically innovative projects to upgrade the energy saving technology and intelligentisation technology for household electrical appliances.

The Group continued to carry out technology improvement and efficiency enhancement projects to enhance efficiency, conserve energy and reduce consumption. The Group also formulated an environmental protection and resources conservation system and established a sound ISO14001 environmental management system and continuously maintained the effective operation of those systems. The ISO14001 environmental management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in December 2017, which assured the certification remained valid. The Group has established a sound occupational health and safety management system and has formulated the Occupational Health and Safety and Environmental Management System Manual and Procedure Document. The occupational health and safety management system of the Group has passed the re-certification audit by the China Academy of Safety Science and Technology in December 2017, which assured the certification remained valid. During the Reporting Period, two corporations of the Company passed the National Occupational Safety and Health Management System Grade I assessment. To date, there are 9 subsidiaries of the Company which have met the Grade I standard as assessed by the National Occupational Safety and Health Management System.

During the Reporting Period, there was no significant production safety accident. The Group did not violate any relevant environmental rules and regulations nor subject to any associated penalties. The Group highly emphasised on and actively perform social responsibilities in order to create coherence between economic benefits and social benefits.

Compliance with laws and regulations

The Group’s business is mainly carried out by its subsidiaries in mainland China, and the Company is dually listed on the Shenzhen Stock Exchange and Hong Kong Stock Exchange. Accordingly, the operations of the Group should comply with the relevant laws and regulations of mainland China and Hong Kong. During the Reporting Period, to the best knowledge of the Company, the Group has complied with the relevant laws and regulations of mainland China and Hong Kong which have a significant impact on the business and operations of the Group. There was no material breach of or non-compliance with the applicable laws and regulations which have a significant impact on the business and operations of the Group.

Relationships with staff, customers, suppliers and other persons

The Group continued to improve its occupational training system in order to provide equal opportunities for its staff. The training system enhances the quality of its staff and their career development. In order to provide comprehensive support and healthcare services to its staff, the Group also paid attention to their living environment through building new apartments, canteens and clinic, which were managed by a specialised institution of the Group.

The Group has established and implemented a strict quality control and inspection system over its products. In order to enhance the standard of products and services proactively, the Group has implemented a “30 days guaranteed return and replacement” return policy for all its household electrical appliances.

The Group conducted site inspections on its suppliers to ensure that the terms of agreements have been complied with. The Group has established close and stable relationships with a number of major suppliers, and past records of the Group showed that no significant shortages or delays were experienced when receiving supplies or services from the suppliers. During the Reporting Period, there has not been any major and significant dispute between the Group and the suppliers.

Discussion and Analysis of Operation

The Group adhered to the principle of “operating with integrity”. The Code of Integrity applies to all staff of the Group and they should observe the rules of integrity involving shareholders, staff, customers, partners, government and society.

III. ANALYSIS TO PRINCIPAL FINANCIALS DURING THE REPORTING PERIOD

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Did the Company make retrospective adjustment to or restatement of the accounting data of prior years due to changes in accounting policies and correction of accounting errors?

Yes No

Item	2017	2016	Year-on-year increase or decrease (%)	2015
Operating revenue (RMB)	33,487,590,387.45	26,730,219,497.07	25.28	23,471,602,857.98
Net profits attributable to shareholders of listed company (RMB)	1,997,530,073.54	1,087,732,130.38	83.64	580,335,074.18
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	1,012,806,955.02	997,923,876.59	1.49	232,460,457.89
Net cash flow from operating activities (RMB)	455,048,576.31	2,925,929,985.25	-84.45	484,261,155.05
Basic earnings per share (RMB/share)	1.47	0.80	83.75	0.43
Diluted earnings per share (RMB/share)	1.47	0.80	83.75	0.43
Weighted average rate of return on net assets (%)	35.12	24.23	10.89	15.49

Item	At the end of 2017	At the end of 2016	Year-on-year increase or decrease (%)	At the end of 2015
Total assets (RMB)	21,473,666,822.72	19,055,058,608.32	12.69	14,292,817,039.53
Net assets attributable to shareholders of listed company (RMB)	6,445,303,673.87	4,867,466,177.17	32.42	4,044,017,698.45

QUARTERLY MAJOR FINANCIAL INDICATORS

Item	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenue (RMB)	7,708,966,633.23	9,897,390,788.18	8,787,929,877.11	7,093,303,088.93
Net profits attributable to shareholders of listed company (RMB)	256,258,113.99	415,840,745.31	1,057,547,302.62	267,883,911.62
Net profits after deducting non-recurring profit and loss attributable to shareholders of listed company (RMB)	245,995,510.99	358,516,688.64	304,076,728.89	104,218,026.50
Net cash flow from operating activities (RMB)	-283,670,463.69	883,818,588.68	315,645,487.34	-460,745,036.02

Discussion and Analysis of Operation

(II) NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNTS

Item	<i>Unit: RMB</i>		
	Amount of 2017	Amount of 2016	Amount of 2015
Profits or losses from disposal of non-current assets (including the part written off for provision for impairment on assets)	787,734,808.88	-15,647,219.04	124,501,216.75
Government grants recognized in the profits or losses (excluding government grants closely related to the Company's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	151,239,597.39	104,597,125.81	173,616,297.39
Costs of corporate restructuring such as staff placement expenses and integration costs			-22,087,867.83
Other non-operating income and expenses other than the aforementioned items	113,236,402.15	24,049,500.83	111,227,500.87
Less:Effect of income tax	48,767,136.54	14,854,388.82	33,493,517.67
Effect of minority interests (after tax)	18,720,553.36	8,336,764.99	5,889,013.22
Total	984,723,118.52	89,808,253.79	347,874,616.29

(III) ANALYSIS OF PRINCIPAL BUSINESS

1. Income

Is the Company's income from sales of goods larger than its income from provision of services?

Yes No

Industry Category	Item (ten thousand units/sets)	2017	2016	Year-on-year increase (%)
Home appliances manufacturing industry	Sales volume	2,096	1,862	12.57
	Production volume	2,114	1,871	12.99
	Inventory volume	135	117	15.38

Discussion and Analysis of Operation

2. Composition of operating revenue

Unit: RMB

Item	2017		2016		Year-on-year increase or decrease (%)
	Amount	Weight to operating revenue (%)	Amount	Weight to operating revenue (%)	
By industry					
Home appliances manufacturing industry	30,430,053,508.06	100.00	24,670,924,400.24	100.00	23.34
By product					
Refrigerators and washing machines	14,110,925,211.40	46.37	12,778,722,120.61	51.80	10.43
Air-conditioners	14,587,570,871.00	47.94	10,380,981,134.10	42.08	40.52
Others	1,731,557,425.66	5.69	1,511,221,145.53	6.12	14.58
By region					
Domestic	20,575,313,709.67	67.62	16,208,992,881.10	65.70	26.94
Overseas	9,854,739,798.39	32.38	8,461,931,519.14	34.30	16.46

3. Composition of operating costs

Unit: RMB ten thousand

Industry Category	Item	2017		2016		Year-on-year increase or decrease (%)
		Amount	Weight to operating costs (%)	Amount	Weight to operating costs (%)	
Home appliances manufacturing industry	Raw materials	2,221,770.42	92.43	1,680,152.40	90.55	32.24
	Staff wages	71,056.94	2.96	65,227.38	3.52	8.94
	Depreciation	55,751.56	2.32	54,657.70	2.95	2.00
	Energy	12,396.96	0.52	12,311.39	0.66	0.70

Discussion and Analysis of Operation

4. Expenses

Unit: RMB

Expense Item	2017	2016	Year-on-year increase or decrease (%)	Reason for the significant changes
Sales expense	4,771,756,662.02	4,640,737,321.53	2.82	No significant changes
Management expense	1,044,734,733.11	946,745,876.45	10.35	No significant changes
Finance expense	9,777,593.76	-85,989,063.41	N/A	Mainly caused by the increased loss in exchange rate
Income tax expense	181,067,121.45	128,747,697.52	40.64	Mainly caused by the corresponding increase in payable income tax as a result of the increase in the Company's profit

5. Cash Flow

Unit: RMB

Item	2017	2016	Year-on-year increase or decrease (%)
Sub-total of cash inflows from operating activities	25,873,346,562.68	22,863,018,974.92	13.17
Sub-total of cash outflows from operating activities	25,418,297,986.37	19,937,088,989.67	27.49
Net cash flows from operating activities	455,048,576.31	2,925,929,985.25	-84.45
Sub-total of cash inflows from investment activities	5,073,544,791.60	2,158,969,055.54	135.00
Sub-total of cash outflows from investment activities	4,342,463,973.07	3,355,984,997.99	29.39
Net cash flows from investment activities	731,080,818.53	-1,197,015,942.45	N/A
Sub-total of cash inflows from financing activities	13,791,204.00	696,098,227.11	-98.02
Sub-total of cash outflows from financing activities	1,033,958,292.64	2,645,390,143.11	-60.91
Net cash flows from financing activities	-1,020,167,088.64	-1,949,291,916.00	N/A
Net increase in cash and cash equivalents	157,334,076.78	-217,174,252.29	N/A

Discussion and Analysis of Operation

Explanations of the main contributing factors for significant year-on-year change of the relevant figures

Applicable Not applicable

The increase in cash inflows from investment activities was mainly due to the increase in the amount received from the disposal of the subsidiaries;

The decrease in cash inflows from financing activities was mainly because there were no account receivable financing business during the same period;

The decrease in cash outflows from financing activities was mainly because there were no account receivable financing business during the same period.

6. Research and development inputs

During the Reporting Period, the Company's research and development focused on improving product performance, level of intelligentization and users' experience, bringing breakthrough in core technology, and enriching high-end product mix. We insisted on providing inputs in research and development and technology innovation of products in order to strengthen our products' market competitiveness and the Company's core competitiveness so as to support the Company's industrial advancement with strong technologies.

Description of research and development inputs of the Company

Item	2017	2016	Change in proportion(%)
Number of research and development staff	1170	1093	7.04
Proportion of number of research and development staff (%)	3.47	3.22	0.25 percentage point
Amount of research and development inputs (RMB)	726,596,221.47	573,604,984.75	26.67
Proportion of research and development inputs to operating revenue(%)	2.17	2.15	0.02 percentage point
Amount of capitalized research and development inputs (RMB)	0	0	–
Proportion of capitalized research and development inputs to research and development inputs	0	0	–

Discussion and Analysis of Operation

(IV) DESCRIPTION OF INDUSTRIES, PRODUCTS OR REGIONS ACCOUNTING FOR 10% OR ABOVE OF THE REVENUE OR PROFITS FROM OPERATING BUSINESSES OF THE COMPANY

Unit: RMB

Item	Revenue from operating businesses	Costs of operating businesses	Gross profit margin (%)	Increase or decrease in revenue from operating businesses as compared to corresponding period last year (%)	Increase or decrease in costs of operating businesses as compared to corresponding period last year (%)	Increase or decrease in gross profit margin as compared to corresponding period last year (percentage point)
By industry						
Home appliances manufacturing industry	30,430,053,508.06	24,038,279,128.40	21.00	23.34	29.55	-3.78
By product						
Refrigerators and washing machines	14,110,925,211.40	11,366,758,054.95	19.45	10.43	18.28	-5.35
Air-conditioners	14,587,570,871.00	11,283,422,898.42	22.65	40.52	44.56	-2.16
Others	1,731,557,425.66	1,388,098,175.03	19.84	14.58	21.71	-4.70
By region						
Domestic	20,575,313,709.67	14,880,565,691.25	27.68	26.94	30.48	-1.96
Overseas	9,854,739,798.39	9,157,713,437.15	7.07	16.46	28.06	-8.42

(V) ASSETS AND LIABILITIES POSITION

Significant changes in asset items

Unit: RMB

Items	At the end of 2017		At the end of 2016		Change in proportion (%)	Explanation of significant changes
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)		
Cash at bank and on hand	2,996,028,194.89	13.95	2,227,421,330.74	11.69	2.26	Mainly because at the end of the Reporting Period, some of the wealth management products became mature and were redeemed and the consideration received from the transfer of shares in subsidiaries increased
Accounts receivable	2,833,227,741.68	13.19	2,725,129,183.33	14.30	-1.11	No significant changes
Inventories	3,397,860,489.07	15.82	2,660,044,996.38	13.96	1.86	No significant changes
Investment properties	24,997,438.39	0.12	26,456,837.73	0.14	-0.02	No significant changes
Long-term equity investment	2,372,045,624.57	11.05	1,627,383,596.00	8.54	2.51	Mainly due to the increase in recognised investment return in Hisense Hitachi, a joint venture company and the increase in investment in Hisense Financial Holdings
Fixed assets	3,251,808,744.32	15.14	3,481,725,652.28	18.27	-3.13	No significant changes
Construction in progress	148,361,940.80	0.69	72,942,458.27	0.38	0.31	Mainly due to the increase in technological improvement investment in fixed assets

Discussion and Analysis of Operation

(VI) ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Unit: RMB

Items	Amount at the beginning of the period	Gain or loss from change in fair value during the period	Accumulated changes in fair value accounted in equity	Impairment provided during the period	Amount purchased during the period	Amount sold during the period	Amount at the end of the period
Financial assets							
1. Financial assets measured at fair value where changes in fair value are accounted for as gain or loss of the period (excluding derivative financial assets)	9,695,070.04	-9,612,399.52					82,670.52
2. Derivative financial assets							
3. Financial assets available for sale							
Sub-total of financial assets	9,695,070.04	-9,612,399.52					82,670.52
Investment Properties							
Productive biological assets							
Others							
Total	9,695,070.04	-9,612,399.52					82,670.52
Financial liabilities		-373,723.35					-373,723.35

(VII) CORE COMPETITIVENESS ANALYSIS

1. Technological advantages

The Company adheres to its development strategy of “technology orientation” and focuses on “intelligence” and “green” to build its core competitiveness through continual innovations in technologies and products. The Company has top-notch research and development institutions including State-level enterprise technology center, enterprise post-doctoral scientific research station, State-recognized laboratory, and Guangdong Provincial Key Research and Development Center of Engineering Science, and an industry-leading research and development team with over thousands of technical personnel. The Company is continuously committed to enhance its self-driven innovation capacity, strives to enhance the performance and level of intelligentization of its products, in order to improve its core competitiveness and its products’ market competitiveness and provide strong technical support for the Company’s industrial advancement.

2. Brand advantages

The three brand names used in products of the Company, namely “Hisense”, “Ronshen” and “Kelon”, have good brand reputation and market base. Among these brands, the market share of “Hisense” inverter air-conditioners had ranked first in China for thirteen consecutive years, while the market share of “Ronshen” refrigerators had ranked first in China for eleven years. “High technology and high quality” reflects the Company’s core brand value. At the same time, the Company gradually accelerated the process of internationalization and continuously promoted the internationalisation of its own brands. The year-on-year increase of revenue from exports of its own brands was 31% in 2017. The share of overseas key market had a stable increase. According to the statistical data of GFK, the sale market share of the Company’s refrigerator products in South Africa in 2017 ranked top in the market.

Discussion and Analysis of Operation

(VIII) Major subsidiaries and companies in which the Company has equity interest

Name of company	Company type	Major business	Registered capital	Total assets (RMB ten thousand)	Net assets (RMB ten thousand)	Operating revenue (RMB ten thousand)	Operating profit (RMB ten thousand)	Net profits (RMB ten thousand)
Hisense Hitachi	A company in which the Company has equity interest	Production and sale of commercial air-conditioners	US\$46 million	963,531.58	449,042.22	940,177.24	190,329.65	156,717.76

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of company	Means of acquisition and disposal of subsidiaries during the Reporting Period	Effect on the overall production, operation and results
Hisense Mould (Deutschland) GmbH	Newly established	To satisfy the Company's operation needs.
Kelon (Japan) Limited	Cancellation of registration	The cancellation of registration of this company will not have any significant impact on the Company's overall production and performance.
Foshan City Shunde District Baohong Management Company Limited	Transfer	Better utilize the Company's existing assets to increase economic benefits and efficiency in utilisation of the Company's assets.

(IX) Material changes of major assets

Major assets	Description of the material changes
Equity assets	Mainly due to the increase in recognised investment return in Hisense Hitachi, a joint venture company and the increase in investment in Hisense Financial Holdings
Fixed assets	No significant change
Intangible assets	No significant change
Projects in progress	Mainly due to the increase in investment on technological improvement in fixed assets

Discussion and Analysis of Operation

(X) Particulars of disposal of major equity during the Reporting Period

√Applicable □ Not applicable

Unit: RMB ten thousand

Contracting party	Subject matter	Date of disposal	Transaction price	The amount of net profit attributable by the disposed shares from the beginning of the Reporting Period to the date of disposal	Effect of the Disposal to the Company	Ratio of the amount of profit attributable by the disposed shares to the total amount of profit of the listed company	Pricing policy of the disposal	Is it a connected transaction	The connected relationship with the contracting party	Whether all the relevant equity interests have been transferred	Whether it is implemented in accordance with the plan, if not, please provide the reason and the measures adopted by the Company	Date of disclosure
Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited	80% of the equity interest in Foshan City Shunde District Baohong Management Company Limited	26th September 2017	68,404.8	-258.07	Better utilize the Company's existing assets to increase economic benefits and efficiency in utilisation of the Company's assets	35%	arm's length negotiation	No	No	Yes	Yes	3 August 2017

IV. OUTLOOK

Looking forward to 2018, expectations for the market scale demand for refrigerators and air-conditioners tend to diminish. According to estimated statistics from China Market Monitor Co., Ltd. (CMM), sales volume for refrigerators in 2018 is expected to increase by 4% year-on-year, while sales volume for air-conditioners will drop by 5% year-on-year. Taking the increasing costs of raw material, logistics, manpower and labour into consideration, the great operational and developmental pressures on enterprises persists. On the other hand, full implementation of the “rural revitalisation strategy” will increase rural income levels and their purchasing power, bringing policy benefits to white goods enterprises. In addition, the continuing upgrade of consumption in the white goods market, the gradual increase of replacement demand in the refrigerator market, and the accelerated integration of online and offline channels are creating new opportunities for the enterprises’ operations.

In 2018, the Company will maintain its overall concept of “creating products with high quality, enhancing customer value, accelerating industrial development, expanding international market” to achieve sustainable development. To this end, the following will be implemented:

1. Creating high quality products that embrace customer value: Targeting the benefits of industry consumption upgrading and oriented by user demand and user experience, developing strongly profitable products that satisfy different customer preferences; firmly implementing the operational philosophy of “to elevate customer value, to produce high quality product”, improving our product competitiveness and increasing the “adhesiveness” of users.
2. Improving operational capabilities and enhancing scale and market share of e-commerce: Improving our organisational structure and reinforcing the incentive mechanism to provide institutional support for the e-commerce business; increasing promotion, optimising the user shopping experience, improving conversion rates, launching more plans for online hit products; strengthening distribution management and enhancing channel competitiveness.

Discussion and Analysis of Operation

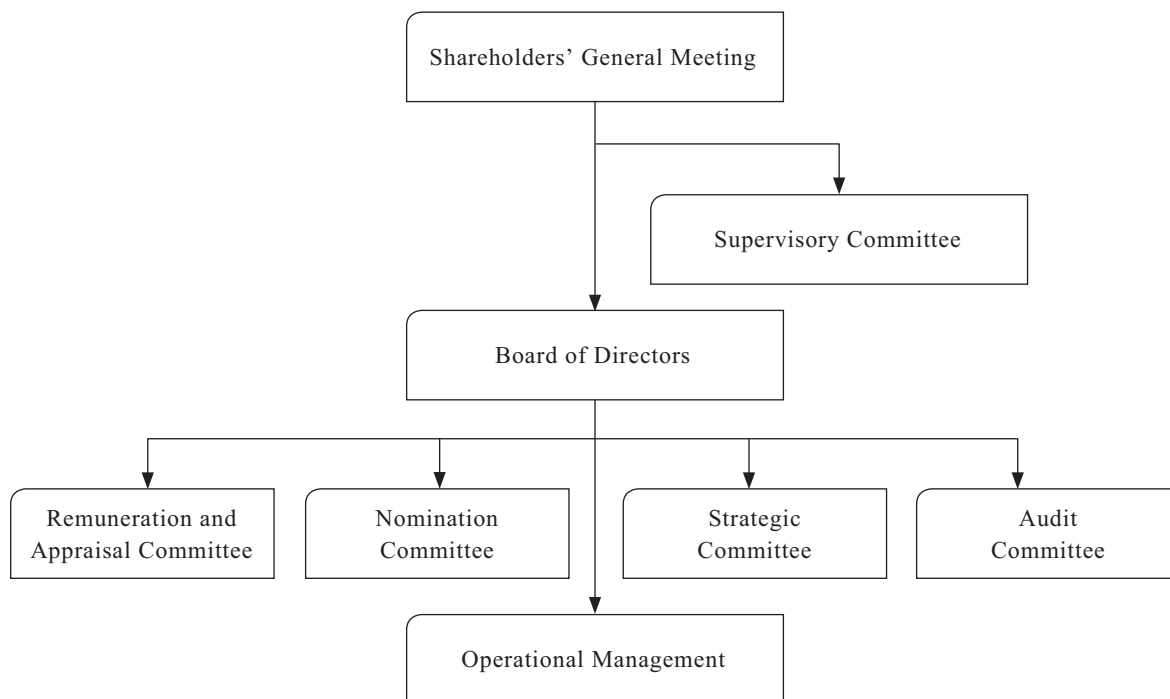
3. Laying down a solid managerial foundation to improve system efficiency: continuing implementation of automation, informatisation and generalization of work, as well as process improvement and optimisation, achieving manufacturing efficiency enhancement; through measures such as informatisation and shutting down underperforming stores to improve output efficiency of individual stores and products so as to achieve marketing efficiency; via TCP analysis and measures such as shortening planning cycles and generalisation, achieving research and development efficiency enhancement; and through strengthening the assessment mechanism, to ensure the realisation of our goal in efficiency enhancement.
4. Improving product quality and facilitating industrial development: Enhancing product quality, seizing significant customers, and achieving rapid business scale growth and economic efficiency in washing machines, commercial air-conditioners, commercial cold chain, environmental control appliances and kitchen appliances.
5. Improving product competitiveness, enhancing export scale and efficiency: Strengthening product planning capabilities and ensuring product competitiveness via technological innovation and product platform; optimising product structure and customer structure; taking advantage of Hisense Group's official sponsorship of the 2018 FIFA World Cup, enhancing proactive promotion, expanding the market, and enhancing scale and efficiency.
6. Improving capital efficiency: Accelerating inventory and receivable turnovers, reducing ineffective use of funds and enhancing ability to utilise capital; carrying out detailed management of cost-control and improving efficiency of capital utilisation.

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

Sound corporate governance is the basic assurance to the long-term healthy and stable development of a corporation, whereas continued enhancement of the governance level is a necessary measure to maintain the healthy development of the Company. The shareholders' general meetings, meetings of the board of directors (the "Board") and its various specialized committees and the supervisory committee of the Company performed their functions, coordinated with each other and maintained effective check and balance in accordance with the laws, regulations and the relevant systems, which continuously enhanced the level of corporate governance of the Company.

I. Corporate governance structure:



(a) Shareholders' General Meeting

As the highest authority of the Company, the shareholders' general meeting exercises its functions and powers in accordance with the laws to make decisions on significant matters of the Company. The Company has established and maintained different communication channels with its shareholders through publication of announcements, the Company's website, as well as by e-mail, telephone and facsimile.

In accordance with Article 8.27 of the Articles of Association of the Company, a poll may be demanded in any shareholders' general meeting of the Company by:

- (a) the chairman of the meeting; or
- (b) at least two shareholders with voting rights or their proxies; or
- (c) one or more shareholder(s) (including their proxies) representing, individually or in aggregate, 10% or more of all shares carrying the voting rights at the general meeting.

The chairman of the general meeting will present detailed procedures of a poll to the shareholders at the beginning of the shareholders' general meeting, and then answer any questions of the shareholders relating to voting by poll. The voting results will be announced after the general meeting in the manner prescribed under Rule 13.39(5) of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Hong Kong Listing Rules").

Corporate Governance Report

In 2017, one annual general meeting (“AGM”) and two extraordinary general meetings (“EGM”) on 9 January 2017 and 22 September 2017 have been held by the Company. The shareholding held by the shareholders attending the AGM, the EGM represented 53.28%, 48.52% and 45.10% of the then total issued shares of the Company respectively. The attendance records of the Directors attending the general meetings are set out in the following table:

The attendance of the general meetings by the Directors				
Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	3	2	0	67%
Mr. Liu Hong Xin	3	0	0	—
Mr. Lin Lan	3	0	0	—
Mr. Dai Hui Zhong	3	0	0	—
Mr. Jia Shao Qian	3	1	0	33%
Mr. Wang Yun Li	3	0	0	—
Mr. Ma Jin Quan <i>(Note 1)</i>	3	3	0	100%
Mr. Xu Xiang Yi	3	2	0	67%
Mr. Liu Xiao Feng <i>(Note 2)</i>	1	0	0	—
Mr. Wang Xin Yu <i>(Note 3)</i>	2	2	0	100%
Mr. Wang Ai Guo <i>(Note 4)</i>	0	0	0	—

Notes:

1. Mr. Ma Jin Quan was appointed as an independent non-executive Director on 9 January 2017.
2. Mr. Liu Xiao Feng was appointed as an independent non-executive Director on 22 September 2017.
3. Mr. Wang Xin Yu ceased to be a Director with effect from 22 September 2017.
4. Mr. Wang Ai Guo ceased to be an independent non-executive Director with effect from 9 January 2017.
5. All Directors who were unable to attend the general meetings in person had applied for leave in writing before the commencement of the general meetings.

Rights of Shareholders

Procedures for shareholders to requisition the convening of shareholders' extraordinary general meeting or class meeting

Shareholders who request the convening of a shareholders' extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign the written requisitions in one (1) or more counterparts requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the object of the meeting. The written requisition shall be deposited at the Company's registered office in China at No.8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province, PRC or the Company's place of business in Hong Kong at Room 3101-3105, Singa Commercial Centre, No.148 Connaught Road West, Hong Kong. The Board shall proceed as soon as possible to convene the shareholders' extraordinary general meeting or class meeting thereof after the receipt of such written requisition. The number of shares held referred to above shall be calculated as of the date of the written requisitions.
- (2) if the Board fails to issue a notice of such a meeting within thirty (30) days after the receipt of the written requisitions, the requisitionists may themselves convene such a meeting in a manner as similar as possible to the manner in which the shareholders' meetings are convened by the Board within four (4) months after the receipt of such requisitions by the Board. Reasonable expenses incurred by the requisitionists by reason of the Board's failure to convene a meeting as requisitioned and the calling and convening of a meeting by themselves shall be borne by the Company.

Procedures by which enquiries may be made by shareholders

Shareholder seeking to request for information such as the Company's Articles of Association, register of shareholders and minutes of shareholders' general meetings or inspect relevant information should provide written documentation to the Company as evidence for the type and number of shares of the Company that he/she holds. Upon verification of the shareholder's identity, the Company will provide the copy as per the shareholder's request within 7 days upon receipt of reasonable charges. In addition, the shareholders can also make enquiries or suggestions by various methods such as phone, mail, site visit and internet platform. The Securities Department of the Company, whose contact details are set out below, is responsible for the day-to-day communication with shareholders:

The Securities Department, Hisense Kelon Electrical Holdings Company Limited
No. 8 Ronggang Road, Ronggui Street,
Shunde District, Foshan City, Guangdong Province,
the People's Republic of China.
Postal code: 528303
Fax number: 86-757-28361055
E-mail address: kelonsec@hisense.com

Shareholders have smooth channels to make enquiries and suggestions to the Company, and the Company also arranges designated person to respond to the relevant enquiries timely.

For voting on each resolution in a general meeting, shareholders are entitled to enquire about the content of the resolution and make recommendation in respect thereof. Speaking shareholder should first introduce his/her identity as shareholder and his/her shareholdings etc., whereas the chairman of the meeting shall in person or appoint specific staff to respond to or give explanation for such enquiry or recommendation.

Corporate Governance Report

Procedures for putting forward proposals at shareholders' general meeting

Any shareholder(s) who hold(s), individually or jointly, 3% or more of the Company's shares shall be entitled to propose and submit in writing to the convener additional motions sixteen (16) days prior to the date of the shareholders' general meeting. The convener shall issue a supplemental notice of the general meeting within the prescribed period to announce the contents of the additional motion(s).

As regard the procedures for proposing a person for election as a Director, please refer to the procedures available on the website of the Company at <http://www.kelon.com>.

(b) The Board of Directors

The Nomination Committee has been established under the Board. The Nomination Committee will select and make suggestions on the candidates for the positions of Directors and the selection criteria and procedures and the same will be submitted to the Board for consideration and approval, and Directors will be elected at the shareholders' general meetings. The ninth session of the Board was elected and established at the annual general meeting of the Company held on 26 June 2015 with a term of office of 3 years. As at the date of this report, the Board comprised nine Directors, the executive Directors are Mr. Tang Ye Guo (Chairman), Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li and the independent non-executive Directors are Mr. Ma Jin Quan, Mr. Xu Xiang Yi and Mr. Liu Xiao Feng.

As at 1 January 2017, the Board was composed of the executive Directors were Mr. Tang Ye Guo (Chairman), Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong, Mr. Jia Shao Qian and Mr. Wang Yun Li and the independent non-executive Directors were Mr. Xu Xiang Yi, Mr. Wang Xin Yu and Mr. Wang Ai Guo. The following changes in the composition of the Board took place during the Reporting Period up to the date of this report:—

- (i) Mr. Wang Ai Guo ceased to be an independent non-executive Director due to expiration of his term with effect from 9 January 2017;
- (ii) Mr. Ma Jin Quan was elected as an independent non-executive Director of the ninth session of the Board at the 2017 first extraordinary general meeting of the Company held on 9 January 2017.
- (iii) Mr. Wang Xin Yu ceased to be an independent non-executive Director due to expiration of his term with effect from 22 September 2017; and
- (iv) Mr. Liu Xiao Feng was elected as an independent non-executive Director of the ninth session of the Board at the 2017 second extraordinary general meeting of the Company held on 22 September 2017.

Members of the ninth session of the Board, in particular the Chairman and the President, do not have any relationship in finance, business, family or other significant aspects.

Board Diversity Policy

The Board has adopted a board diversity policy. The Company recognizes and embraces the benefits of having a diverse board to enhance the quality of its performance. With a view to achieving its sustainable and balanced development, the Company aims to achieve board diversity through consideration of a number of factors including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, and the selection of director candidates will be based on a range of diversity aspects and the final decision will be based on merits of and contribution that candidate may bring to the Board.

The Nomination Committee will review the composition of the Board under diversified perspectives and will monitor the implementation of the board diversity policy to ensure its continual effectiveness.

Corporate Governance Report

Members of the Board have different backgrounds with extensive experience in various fields such as science and technology, corporate management and finance and accounting. The biographies and roles of the Directors are set out on pages 35 to 38 of this annual report.

The primary duties of the Board include: convening shareholders' general meetings and reporting its work at the shareholders' general meetings, and exercising its decision-making powers as delegated by the shareholders at the general meetings with respect to matters such as the strategic development plans of the Company, establishment of the management structure, investment and financial controls, disposal of material assets, material transactions and human resources. The Board is responsible for formulating the Company's overall strategy and annual business plans, and ensuring that its production and operation is properly planned, approved, conducted and monitored. In addition, the Board is also responsible for the appointment of the members of the Operational Management and the supervision and evaluation of their performance.

The Board is also responsible for overseeing the preparation of the accounts for each fiscal period to ensure that such accounts truly and fairly reflect the Company's business operation, results and cash flow performance during that period. The Operational Management of the Company provides proper explanation and sufficient information to the Board so as to enable it to make an informed assessment of the financial information and other information submitted to it for approval. In preparing the accounts for the year ended 31 December 2017, the Directors:

- selected appropriate accounting policies;
- approved the adoption of all applicable standards as set out in the China Accounting Standards for Business Enterprises; and
- made prudent and reasonable judgments and estimates, and prepared the accounts on a going concern basis.

The Operational Management of the Company is responsible for implementing the decisions made by the Board and making its own decisions on matters relating to the Company's business operation within the scope of authority delegated by the Board, which include: overseeing the management of the Company's production and operation, organizing and implementing the Company's annual operation and investment plans, preparing the proposal for the establishment of the Company's internal control structure, formulating the Company's basic management system and setting up the Company's basic regulations. Meanwhile, as requested by the Board, the Operational Management reports to the Board the conclusion and performance of the Company's major contracts, the use of capital and the Company's profit and loss conditions and ensures that such information is true and complete.

The Company has formulated the relevant systems in accordance with the Hong Kong Listing Rules and the relevant laws and regulations to remind the Directors of their obligations, including making disclosures to the regulatory authorities in a timely manner of their interests, potential conflicts of interests and changes in their personal information. Each Director also undertakes that he or she is able to devote sufficient efforts and time to the Company's affairs. The Board assesses and evaluates the performance of the Directors in carrying out their duties according to their attendance rate in the Board meetings and shareholders' general meetings as well as the opinions and suggestions put forward by them in the day-to-day work.

Corporate Governance Report

In 2017, the ninth session of the Board held 14 meetings to discuss the Company's important operating items. The Directors attended the meetings in person, and their attendance records are set out in the following table:

The attendance of the meetings of the ninth session of the Board				
Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Tang Ye Guo	14	14	0	100%
Mr. Liu Hong Xin	14	14	0	100%
Mr. Lin Lan	14	14	0	100%
Mr. Dai Hui Zhong	14	14	0	100%
Mr. Jia Shao Qian	14	14	0	100%
Mr. Wang Yun Li	14	14	0	100%
Mr. Ma Jin Quan <i>(Note 1)</i>	14	14	0	100%
Mr. Xu Xiang Yi	14	14	0	100%
Mr. Liu Xiao Feng <i>(Note 2)</i>	3	3	0	100%
Mr. Wang Xin Yu <i>(Note 3)</i>	11	11	0	100%
Mr. Wang Ai Guo <i>(Note 4)</i>	0	0	0	—

Notes:

1. Mr. Ma Jin Quan was elected as an independent non-executive Director of the ninth session of the Board of the Company at the 2017 first extraordinary general meeting of the Company held on 9 January 2017.
2. Mr. Liu Xiao Feng was elected as an independent non-executive Director of the ninth session of the Board of the Company at the 2017 second extraordinary general meeting of the Company held on 22 September 2017.
3. Mr. Wang Xin Yu ceased to be an independent non-executive Director of the Company with effect from 22 September 2017.
4. Mr. Wang Ai Guo ceased to be an independent non-executive Director of the Company with effect from 9 January 2017.

As stipulated by the Articles of Association of the Company, all Directors should be given 14 days' notice prior to the commencement of a regular Board meeting. For an extraordinary Board meeting, 10 days' notice should be given in advance. Arrangements are also in place to ensure that all Directors are given an opportunity to include matters in the agenda for Board meetings. The secretary to the Board is responsible for providing detailed information of a regular Board meeting (including information in relation to the meeting of each of the specialized committees of the Board) not later than 3 days prior to the commencement of the meeting to ensure all Directors are apprised of the matters to be considered in the meeting in advance. As for extraordinary Board meetings which are held by means of telecommunication at the request of the Company's management, information relevant to the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. At the same time, the secretary to the Board would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist the Directors to ensure that the procedures of the meetings of the Board are in compliance with the applicable regulations, such as the Company Law of the People's Republic of China, the Articles of Association of the Company and the Hong Kong Listing Rules. The Company has made available sufficient resources to enable Directors to discharge their duties and responsibilities, including budget for consulting fees in seeking independent professional advice. Minutes of each Board meeting and each meeting of the committees of the Board will be signed by the attending Directors and the person taking the minutes, and be kept for a term of 10 years for record, during which the minutes are available for Directors' inspection from time to time upon their request.

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The Board is responsible for corporate governance, supervision of the management in establishment of a compliant organization structure and system, compliance with the CG Code (as defined below) and other laws and regulations in the ordinary course of management and other functions set out in code provision D.3.1 in the CG Code. During the Reporting Period, the Board and specialized committees have reviewed compliance of the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management and the Company's internal control system.

Independent Non-Executive Directors

The Board comprises three independent non-executive Directors, accounting for one-third of the total number of Directors. The independent non-executive Directors appointed by the Company have complied with Rules 3.10(1) and (2), Rule 3.10A and Rule 3.13 of the Hong Kong Listing Rules and all of them are independent of and are not connected with any of the connected persons (as defined in the Hong Kong Listing Rules) of the Company. The Company has received a confirmation of independence from each of the independent non-executive Directors. The term of office of Mr. Ma Jin Quan, Mr. Xu Xiang Yi and Mr. Liu Xiao Feng are up to 25 June 2018.

In compliance with the relevant laws, regulations and the requirements of the Working System of Independent Non-executive Directors, the independent non-executive Directors of the Company attended the meetings of the Board and the specialized committees in a meticulous, responsible, enthusiastic and conscientious manner and brought their professionalism and expertise to a full play in the independent performance of their duties, contributing professional advice and independent judgment for significant issues under discussion for decision making.

Specialized committees of the Board

The Board has established four specialized committees, namely, the Remuneration and Appraisal Committee, the Nomination Committee, the Strategic Committee and the Audit Committee. Each committee has devised its own working rules to define its terms of reference and the procedures of performance, which have been approved by the Board.

Remuneration and Appraisal Committee

The ninth session of the Board has established the Remuneration and Appraisal Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Remuneration and Appraisal Committee consisted of the Directors, namely, Mr. Liu Hong Xin, Mr. Lin Lan and the independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Ma Jin Quan (since 9 January 2017), Mr. Wang Ai Guo (till 8 January 2017), Mr. Liu Xiao Feng (since 22 September 2017) and Mr. Wang Xin Yu (till 21 September 2017). Mr. Xu Xiang Yi acted as the chairman of the committee.

The major duties and authority of the Remuneration and Appraisal Committee are:

- (A) to analyze the appraisal standard of the Directors and senior management and to carry out the appraisal and make recommendations based on the actual conditions of the Company;
- (B) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (C) to make recommendations in situations where Directors or senior management accept responsibilities and resign or are proposed to be dismissed for their defaults and failure to perform their duties;
- (D) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

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- (E) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (F) to make recommendations to the Board for the remuneration of independent non-executive Directors;
- (G) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (H) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (I) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the group;
- (J) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (K) other duties provided under applicable regulatory rules and other matters authorized by the Board.

The Remuneration and Appraisal Committee may seek professional advice when necessary. No Director or any member of the senior management shall be involved in deciding his or her own remuneration. The main purpose of the remuneration policies formulated by the Remuneration and Appraisal Committee is to attract and retain Directors and senior management who faithfully and diligently discharge their duties, and who help the Company in its successful operation and the remuneration policies are therefore important to the Company. For details of the remuneration policies of the Company, please refer to page 54 of this annual report.

The Remuneration and Appraisal Committee of the Board held 2 meetings during the Reporting Period, and the attendance record of the members of the Remuneration and Appraisal Committee is set out below:

The attendance of the meetings of the Remuneration and Appraisal Committee of the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Xu Xiang Yi	2	2	0	100%
Mr. Liu Hong Xin	2	2	0	100%
Mr. Lin Lan	2	2	0	100%
Mr. Ma Jin Quan <i>(Note 1)</i>	2	2	0	100%
Mr. Liu Xiao Feng <i>(Note 2)</i>	0	0	0	—
Mr. Wang Xin Yu <i>(Note 3)</i>	2	2	0	100%
Mr. Wang Ai Guo <i>(Note 4)</i>	0	0	0	—

Note:

1. Mr. Ma Jin Quan was appointed as a member of the Remuneration and Appraisal Committee with effect from 9 January 2017;
2. Mr. Liu Xiao Feng was appointed as a member of the Remuneration and Appraisal Committee with effect from 22 September 2017;
3. Mr. Wang Xin Yu ceased to be a member of the Remuneration and Appraisal Committee with effect from 22 September 2017; and
4. Mr. Wang Ai Guo ceased to be a member of the Remuneration and Appraisal Committee with effect from 9 January 2017.

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During the Reporting Period, the Remuneration and Appraisal Committee considered and approved:

1. the resolution in respect of the annual remuneration of the senior management of the Company; and
2. the resolution in respect of the pre-tax annual remuneration of Mr. Liu Xiao Feng, the candidate of independent non-executive Director of the ninth session of the Board, to be RMB240,000.

Members of the Remuneration and Appraisal Committee confirmed that the remuneration of the Directors, supervisors and senior management during the Reporting Period are in line with the remuneration appraisal system set up by the Company and the remuneration policies have been strictly implemented. Details of the remuneration of the Directors, the supervisors and the senior management of the Company for the year ended 31 December 2017 are set out on page 53 of this annual report.

Nomination Committee

The ninth session of the Board has established the Nomination Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Nomination Committee comprised three independent non-executive Directors, namely, Mr. Xu Xiang Yi, Mr. Wang Ai Guo (till 8 January 2017), Mr. Ma Jin Quan (since 9 January 2017), Mr. Wang Xin Yu (till 21 September 2017) and Mr. Liu Xiao Feng (since 22 September 2017), and two executive Directors, namely, Mr. Tang Ye Guo and Mr. Jia Shao Qian. Mr. Xu Xiang Yi acted as the chairman of the committee.

The major duties and authority of the Nomination Committee are:

- (A) to analyze the standard and process for selection of candidates for the positions of Director and senior management and make recommendations to the Board;
- (B) to extensively identify individuals qualified to become Directors and senior management;
- (C) to examine the candidates for the positions of Director and senior management and make recommendations to the Board;
- (D) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategies;
- (E) to assess the independence of the independent non-executive Directors;
- (F) to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the President; and
- (G) other matters authorized by the Board.

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During the Reporting Period, the Nomination Committee comprised five Directors, including three independent non-executive Directors, and the members of the Nomination Committee are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of Directors, and are elected by the Board. The Nomination Committee shall have one chairman (convener) who should be an independent non-executive Director responsible for presiding over the work of the committee. The convener shall be elected among the committee members, and shall be reported to the Board for approval. The term of office of each member of the Nomination Committee is consistent with the term he or she serves in the Board. During the term of office, if any member of the committee ceases to be a Director, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the Board in accordance with the requirements. The human resources department of the Company will assist the Nomination Committee in carrying out its daily work such as selection and nomination of suitable candidates.

The Nomination Committee of the Board held 2 meetings during the Reporting Period, and the attendance record of the members of the Nomination Committee is set out below:

Name	The attendance of the meeting of the Nomination Committee of the Board			
	Number of meeting which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance Rate for the year
Mr. Xu Xiang Yi	2	2	0	100%
Mr. Tang Ye Guo	2	2	0	100%
Mr. Jia Shao Qian	2	2	0	100%
Mr. Ma Jin Quan <i>(Note 1)</i>	2	2	0	100%
Mr. Liu Xiao Feng <i>(Note 2)</i>	0	0	0	—
Mr. Wang Xin Yu <i>(Note 3)</i>	2	2	0	100%
Mr. Wang Ai Guo <i>(Note 4)</i>	0	0	0	—

Notes:

1. Mr. Ma Jin Quan was appointed as a member of the Nomination Committee with effect from 9 January 2017;
2. Mr. Liu Xiao Feng was appointed as a member of the Nomination Committee with effect from 22 September 2017;
3. Mr. Wang Xin Yu ceased to be a member of the Nomination Committee with effect from 22 September 2017; and
4. Mr. Wang Ai Guo ceased to be a member of the Nomination Committee with effect from 9 January 2017.

During the Reporting Period, the Nomination Committee considered and approved:

- (1) the resolution in respect of the nomination of Mr. Jia Shao Qian as candidate of the President of the Company; and
- (2) the resolution in respect of the nomination of Mr. Liu Xiao Feng as candidate of the independent non-executive Director of the ninth session of the Board.

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The Nomination Committee conducts extensive searches for candidates of Directors or senior management within the Company and in the open market, etc. after considering the Company's requirements for new Directors or senior management. With the consent to nomination from the candidates, the Nomination Committee will convene the Nomination Committee meeting in accordance with relevant laws and regulations, the Articles of Association of the Company and the Terms of Reference for Nomination Committee taking into account the Company's actual situation, examine the qualifications of the initial nominees according to the requirements for the position of Directors or senior management and form a resolution which would be recorded and submitted to the Board for its consideration. The Nomination Committee will provide the Board with its recommendation on the candidates for directorship together with relevant information two months before the nomination. In respect of the nomination of senior management, the Nomination Committee shall provide the Board with candidates for the position of its recommendation together with relevant materials one month before the nomination. During the Reporting Period, the Nomination Committee strictly implemented the nomination procedures and recommendation criteria in accordance with the nomination policy enacted.

Strategic Committee

The ninth session of the Board of the Company has established the Strategic Committee with specific written terms of reference. During the Reporting Period and up to the date hereof, the Strategic Committee of the ninth session of the Board comprised Mr. Tang Ye Guo, Mr. Liu Hong Xin, Mr. Lin Lan, Mr. Dai Hui Zhong and Mr. Jia Shao Qian. Mr. Tang Ye Guo acted as the chairman of the committee.

The Strategic Committee of the Board is a specialized working organ under the Board, primarily responsible for studying and making recommendations on the long-term development strategies and the decision-making on significant investments of the Company.

During the Reporting Period, the Strategic Committee comprised five Directors, who are nominated by the Chairman of the Board, one-half or more of the independent non-executive Directors or one-third or more of all the Directors, and are elected by the Board. The committee shall have one chairman (convener), who shall be the Chairman of the Board. The term of office of each member of the Strategic Committee shall be consistent with his or her term of office with the Board, and members of the committee can be re-elected upon his or her retirement. During the term of office, if any member of the committee ceases to be a Director, he or she shall be disqualified as a member of the committee accordingly, and the vacancy should be filled by the person elected by the committee in accordance with the requirements.

Audit Committee

The Board takes ultimate responsibility for the Company's internal control system. To achieve the best corporate governance practices, the Company has set up the Audit Committee to review the efficiency of the relevant systems. The Audit Committee is a specialized working organ under the Board with specific written terms of reference, and is responsible for the communication, supervision and inspection of the internal and external audit work of the Company. The Audit Committee reports to the Board and its proposals shall be submitted to the Board for approval.

The major duties and authority of the Audit Committee are:

- (A) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditing body, and to approve the remuneration and terms of engagement of the external auditing body, and any questions of its resignation or dismissal;
- (B) to review and monitor the independence and objectivity of the external auditing body and the effectiveness of the audit process in accordance with applicable standards; the Audit Committee should discuss with the auditing body the nature and scope of the audit and reporting obligations before the audit commences;

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- (C) to develop and implement policy on engaging an external auditing body to supply non-audit services. For this purpose, “external auditing body” includes any entity that is under common control, ownership or management with the auditing body or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (D) to monitor the integrity of the Company’s financial statements and annual report and accounts, interim report and quarterly reports, and to review significant financial reporting judgments presented in these reports. In reviewing these reports before submission to the Board, the committee should focus particularly on:
 - 1. any changes in accounting policies and practices;
 - 2. areas involving major judgements;
 - 3. significant adjustments resulting from the audit;
 - 4. the going concern assumptions and any qualifications;
 - 5. compliance with accounting standards; and
 - 6. compliance with the Hong Kong Listing Rules and legal requirements in relation to financial reporting;
- (E) regarding item (D) above:
 - 1. members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company’s auditing body; and
 - 2. the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and it should give due consideration to any matters that have been raised by the Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditing body;
- (F) to examine and review the Company’s financial controls, internal control and risk management systems;
- (G) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function;
- (H) to research major findings of investigation on internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (I) where an internal audit function exists, to ensure co-ordination between the internal and external auditing bodies, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to examine, review and monitor its effectiveness;
- (J) to examine and review the Group’s financial and accounting policies and practices;
- (K) to review the explanatory letter on audit work provided to the management by the external auditing body, any material queries raised by the auditing body to management about the accounting records, financial accounts or systems of control and management’s response;

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- (L) to ensure that the Board will provide a timely response to the issues raised in the explanatory letter on audit work provided to the management by the external auditing body;
- (M) to report to the Board on the matters specified in its terms of reference;
- (N) to audit and review the following arrangements set by the Company: the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters the Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (O) to act as the key representative body for overseeing the Company's relationship with the external auditing body;
- (P) to establish a whistle-blowing mechanism to pay attention to and openly handle the enquiries and complaints made by the staff, customers, suppliers and investors of the Company and social media on the truthfulness, accuracy and completeness of the financial information;
- (Q) to make recommendation regarding the establishment and modification of corporate governance mechanism and to provide effective supervision over the implementation of resolutions of the Board by senior management of the Company; and
- (R) to consider such other matters as the Board may authorize.

All members of the Audit Committee under the ninth session of the Board are independent non-executive Directors. During the Reporting Period and up to the date hereof, the Audit Committee consisted of Mr. Liu Xiao Feng (since 22 September 2017), Mr. Ma Jin Quan (since 9 January 2017), Mr. Xu Xiang Yi, Mr. Wang Xin Yu (till 21 September 2017) and Mr. Wang Ai Guo (till 8 January 2017). Mr. Liu Xiao Feng acted as the chairman of the committee.

The Audit Committee of the Board of the Company held six meetings during the Reporting Period, and the attendance record of the members of the Audit Committee is set out below. All matters considered and approved at such meetings were recorded in accordance with the relevant requirements and filed for record after being reviewed and signed by all members of the Audit Committee.

The attendance of the meetings of the Audit Committee of the Board

Name	Number of meetings which should be attended for the year	Number of attendance in person	Number of attendance by proxy	Attendance rate for the year
Mr. Liu Xiao Feng <i>(Note 1)</i>	1	1	0	100%
Mr. Ma Jin Quan <i>(Note 2)</i>	6	6	0	100%
Mr. Xu Xiang Yi	6	6	0	100%
Mr. Wang Xin Yu <i>(Note 3)</i>	5	5	0	100%
Mr. Wang Ai Guo <i>(Note 4)</i>	0	0	0	—

Note:

- Mr. Liu Xiao Feng was appointed as the chairman of the Audit Committee with effect from 22 September 2017;
- Mr. Ma Jin Quan was appointed as a member of the Audit Committee with effect from 9 January 2017;
- Mr. Wang Xin Yu ceased to be the chairman of the Audit Committee with effect from 22 September 2017; and
- Mr. Wang Ai Guo ceased to be the chairman of the Audit Committee with effect from 9 January 2017.

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In 2017, the Audit Committee accomplished the following major tasks:

1. having reviewed the annual, interim and quarterly financial reports of the Company;
2. having considered and approved the report on internal control for the year of 2016 and the final report for the audit work conducted by the auditing body for the year of 2016;
3. having considered and approved the resolution on the election of Mr. Wang Xin Yu as the chairman of the Audit Committee of the ninth session of the Board;
4. having considered and approved the resolution on the election of Mr. Liu Xiao Feng as the chairman of the Audit Committee of the ninth session of the Board;
5. having considered and approved the resolution on the reappointment of Ruihua Certified Public Accountants as the auditor of the Company for the year of 2017;
6. having reviewed the connected transactions of the Company to ensure that the connected transactions were in compliance with the principles of fairness, impartiality and transparency with sufficient protection of the medium and minority shareholders' interests;
7. having reviewed the effectiveness of the Company's internal control system; and
8. having made recommendations on significant events of the Company and reminded the management of the Company of the relevant risks.

(e) Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. It independently performs its supervisory duties to protect the legal interests of shareholders, the Company and its staff from infringements. It also reviews the Company's financial positions in accordance with the relevant requirements of the Articles of Association of the Company, and oversees the discharge of duties of the Directors and the senior management of the Company.

During the Reporting Period, the ninth session of the Supervisory Committee was composed of two shareholders representative supervisors, namely Mr. Liu Zhen Shun, Mr. Yang Qing and one employee representative supervisor, Ms. Fan Wei, with Mr. Liu Zhen Shun acting as the chairman of the Supervisory Committee.

Details of the above-mentioned supervisors' biographies are set out on page 37 of this annual report.

II. Compliance with the CG Code

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Hong Kong Listing Rules.

Training of the Directors

In order to enhance the level of corporate management of the Directors, the secretary to the Board continuously follows the latest regulatory requirements set out by the securities regulatory institutions, and delivers such requirements and information to the Directors, supervisors and senior management of the Company in a timely manner. At the same time, the Company has also arranged training programs for the relevant Directors, supervisors and senior management, which includes specific training sessions held by the Shenzhen Stock Exchange and China Securities Regulatory Commission Guangdong Bureau, to assist the Directors in participating in continuous professional development.

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The secretary to the Board maintains records of training attended by the Directors. The training attended by each current Director during the Reporting Period is tabulated as follows:

Name	Type of training <i>(Note)</i>
Mr. Tang Ye Guo	b
Mr. Liu Hong Xin	a, b
Mr. Lin Lan	a, b
Mr. Dai Hui Zhong	a, b
Mr. Jia Shao Qian	b
Mr. Wang Yun Li	b
Mr. Ma Jin Quan	a, b
Mr. Xu Xiang Yi	a, b
Mr. Liu Xiao Feng	a, b

Notes:

- a. attending seminar(s) or training session(s)
- b. reading newspapers, journals and updates relating to the Company's business or directors' duties and responsibilities etc.

Chairman and President

The Chairman of the Board and the President of the Company are appointed by the Board. The persons who were appointed as the Chairman and the President of the Company during the Reporting Period up to the date of this report are as follows:

POSITION	Chairman	Former President	President
NAME	Mr. Tang Ye Guo	Mr. Dai Hui Zhong	Mr. Jia Shao Qian
TERM OF OFFICE	26 June 2006 to now	27 January 2016 to 28 February 2017	1 March 2017 to now

The Chairman shall be responsible for presiding over the general meetings, convening and presiding over the Board meetings, ensuring that the Board is in effective proper operation to review and discuss all the significant issues in a timely and effective manner, reviewing the implementation of the Board's resolutions as well as discharging his duties as the legal representative of the Company. The President shall take charge of the management of the production and operation of the Company, and is responsible for organizing the implementation of the Board's resolutions and the Company's annual operational and investment plans and making decisions on other issues within the scope of delegation by the Board.

During the Reporting Period, the Chairman held a meeting with the independent non-executive Directors without the presence of the executive Directors.

Internal Control

During the Reporting Period, pursuant to the provisions and requirements of the “Basic Norms for Enterprise Internal Control” and its ancillary guidelines, with the objectives of enhancing the level of corporate operation and management and risk prevention ability, as well as reasonably ensuring the compliance of the Company’s operation with law and regulation, the safety of assets, the truthfulness and completeness of the financial reports and relevant information, optimizing the efficiency and efficacy of operation and promoting the implementation of strategies for sustainable development by the Company, and taking into account the Company’s internal control system and assessment method and on the basis of daily supervision and specific supervision of internal control, the Company has determined the scope of assessment in internal control that require emphasis, including organizational structure, development strategies, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, research and development, engineering project, outsourcing of business, financial reporting, comprehensive budgeting, contract management, internal information transmission and information system, and has carried out assessment on the effectiveness of the Company’s internal control in 2017. Conclusions were drawn in respect of the effectiveness of internal control: during the Reporting Period, the Company has established internal control for all businesses and matters included in the scope of assessment, and the internal control has been effectively executed to achieve the objectives of the Company’s internal control without significant shortfalls.

The Board has reviewed the effectiveness of the internal control system of the Company during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system for the Company based on the actual situation and was not aware of any significant defect in the internal control system of the Company. In addition, the Company has engaged Ruihua Certified Public Accountants to perform independent audit on the effectiveness of the Company’s internal control and an audit report on internal control has been issued. The auditor is of the view that as at 31 December 2017, the Company has maintained effective internal control related to financial reporting in accordance with “Basic Norms for Enterprise Internal Control” and the relevant requirements in all material aspects.

As at the date of this report, members of the ninth session of the Board of the Company consider that there is no major uncertain event or circumstance which may materially affect the Company’s ability to continue as a going concern.

III. Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules as its code for securities transactions by the Directors. After making specific enquiries to the Directors, they all confirmed that they had complied with the Model Code during their term of office.

IV. Auditor

In 2017, as considered and approved at the shareholders’ general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2017, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB 700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2017 and bear the corresponding travel expenses.

V. Company secretary

On 26 June 2015, the Board examined and approved the appointment of Ms. Wong Tak Fong as the company secretary of the Company to assist the Company in dealing with the Hong Kong Listing Rules compliance matters. Ms Wong Tak Fong is the Company’s external personnel. She can contact and communicate with the secretary of the Board of the Company, Ms. Huang Qian Mei, in her day-to-day work.

According to Rule 3.29 of the Hong Kong Listing Rules, Ms. Wong Tak Fong has taken no less than 15 hours of relevant professional training during the Reporting Period.

Profiles of Directors, Supervisors & Members of the Senior Management

Directors:

Mr. Tang Ye Guo, aged 55, holds a doctorate degree in management, has successively held the positions of the chief accountant, the deputy general manager, the general manager and director of Hisense Electric Co., Ltd.. From August 2003 to September 2005, he served as an assistant to the president and the vice president of Hisense Company Limited, and the general manager and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited. Mr. Tang was the chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and a director of Hisense Electric Co., Ltd. and the president of the Company from September 2005 to June 2006. He has acted as the vice president of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company from June 2006 to April 2010. He has been the vice president and a director of Hisense Company Limited and chairman of the board of directors of Qingdao Hisense Air-Conditioning Company Limited and the chairman of the board of directors of the Company since April 2010.

Mr. Liu Hong Xin, aged 51, holds a bachelor degree in management, has successively served as the general manager of the Xi'an branch and the general manager of the Zheng Zhou branch of Hisense Electric Co., Ltd., the general manager of 貴陽海信電子有限公司 (Guiyang Hisense Electronics Company Limited), the deputy general manager of Hisense Electric Co., Ltd. and the general manager of 營銷公司 (Marketing Company). He served as the general manager of Hisense Electric Co., Ltd. from January 2006 to June 2006 and a director and general manager of Hisense Electric Co., Ltd. from June 2006 to April 2010. He has been a director of Hisense Company Limited and a director and general manager of Hisense Electric Co., Ltd. from April 2010 to November 2014. He has been a director of Hisense Company Limited and a director of Hisense Electric Co., Ltd. from November 2014 to June 2015. He has been a director of Hisense Company Limited, the chairman of the board of directors of Hisense Electric Co., Ltd. and a director of the Company from June 2015 to October 2015. He has been a director and president of Hisense Company Limited, the chairman of the board of directors of Hisense Electric Co., Ltd. and a director of the Company since October 2015.

Mr. Lin Lan, aged 60, holder of a doctorate degree in mechanical engineering, has worked as the manager of the power system software development department of 西門子諮詢公司 (Siemens, currently known as "AMEC Limited" in the UK), the senior project manager and senior engineer of GE動力系統公司 (GE Power Systems). Mr. Lin acted as the vice president of the Company from September 2002 to June 2006. He served as a director of the Company from June 2006 to July 2006 and he has served as the vice president of Hisense Company Limited and a director of the Company from July 2006 to May 2007. He has been the vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company from May 2007 to December 2009. He has been a director and vice-president of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director of the Company since December 2009.

Mr. Dai Hui Zhong, aged 52, holds a bachelor degree in machinery manufacturing technology and equipment, has served successively as the general manager of the plastic products and metal department, assistant to the general manager and general manager of the module department and general manager of purchase centre of Hisense Electric Co., Ltd., From April 2013 to November 2014, he has served as the deputy general manager of Hisense Electric Co., Ltd.. From November 2014 to June 2015, he has served as the general manager of Hisense Electric Co., Ltd.. He has served as a director and general manager of Hisense Electric Co., Ltd. from June 2015 to October 2015 and he has served as a director of Hisense Company Limited and a director and general manager of Hisense Electric Co., Ltd. from October 2015 to January 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and the president of the Company from January 2016 to June 2016. He has served as a director of Hisense Company Limited, a director of Hisense Electric Co., Ltd. and a director and president of the Company from June 2016 to February 2017. He has been a director of Hisense Company Limited, Hisense Electric Co., Ltd. and the Company since March 2017.

Mr. Jia Shao Qian, aged 45, holds a master degree in management, has served as a legal adviser in the corporate legal department, a supervisor of public relations in the president office, deputy manager of the president office, manager of the president office of Hisense Company Limited and the chief supervisor of Hisense Electric Co., Ltd., He has served as the vice president of the Company from January 2007 to June 2015 and he has served as a director and vice president of the Company from June 2015 to February 2017. He has been a director and president of the Company since March 2017.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Wang Yun Li, aged 45, holds a bachelor degree in English for science and technology, was the deputy sales general manager of Hisense Electric Co., Ltd. and the deputy general manager of the PRC marketing company of the Company. He was the vice president of the Company and the general manager of the PRC marketing company of the Company from December 2010 to January 2012. From February 2012 to March 2014, he was the vice president of the Company and the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From March 2014 to July 2015, he was the deputy general manager of Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.. From July 2015 to December 2015, he was the deputy head of the marketing and management department of Hisense Company Limited. He has served as the general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from January 2016 to May 2016. He has served as the vice president of the Company from May 2016 to June 2016. He has been a director and vice president of the Company since June 2016.

Mr. Ma Jin Quan, aged 75, graduated from Northwestern Polytechnical University (西北工業大學) and is a senior engineer. He was the executive deputy factory manager of Shanxi Color Picture Tube Plant (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Group Corporation (彩虹集團公司), the factory manager of Huanghe Machinery Plant (黃河機器製造廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited (黃河機電股份有限公司), and the director and general manager of IRICO Group Corporation (彩虹集團公司). From November 2006 to June 2012, he was the external director of Panzhihua Iron & Steel (Group) Corporation (攀枝花鋼鐵(集團)公司). From April 2008 to April 2014, he acted as the independent director of China XD Electric Co., Ltd. (中國西電電氣股份有限公司) (listed on the Shanghai Stock Exchange). From May 2009 to May 2015, he acted as the independent director of Hisense Electric Co., Ltd. (青島海信電器股份有限公司) (listed on the Shanghai Stock Exchange). From November 2013 to the present, he has been an independent director of Xi'an Future International Information Co., Ltd. (西安未來國際信息股份有限公司) (listed on the New Third Board (新三板)). He has been an independent non-executive director of the Company since January 2017.

Mr. Xu Xiang Yi, aged 62, holds a Ph. D. in Law, is currently the professor of the second grade, the head of corporate governance research center of Shandong University and a Ph. D. supervisor in business management. He has been the Dean of school of Management of Shandong University. He has been an independent director and supervisor of Shandong Hi-speed Company Limited (listed on the Shanghai Stock Exchange) and an independent director of Hisense Electric Co., Ltd. (listed on the Shanghai Stock Exchange), Tongling Jingda Special Magnet Wire Co., Ltd. (listed on the Shanghai Stock Exchange), Shandong Demian Incorporated Company (listed on the Shanghai Stock Exchange), Baolingbao Biology Co., Ltd. (listed on the Shanghai Stock Exchange), Shandong Longji Machinery Co., Ltd. (listed on the Shenzhen Stock Exchange) and Shandong Luyitong Intelligent Electric PLC (listed on the Shenzhen Stock Exchange). He has been an independent director of Shandong Publishing & Media Co., Ltd. (listed on the Shanghai Stock Exchange) since 2012. He has been an independent director of Shandong Tianli Drying Technology and Equipment Co., Ltd. (listed on the New Third Board (新三板)) since November 2014, an independent director of Hengtong Logistics Co., Ltd (listed on the Shanghai Stock Exchange) since December 2014. He has been an independent director of Shandong Airlines (listed on the Shenzhen Stock Exchange) since June 2017. He has been an independent non-executive director of the Company since June 2012.

Mr. Liu Xiao Feng, aged 56, obtained a Ph.D. in Development Economics from the University of Cambridge. He served as a member of the board of directors at NM Rothschild & Sons (Hong Kong) Limited in Hong Kong, as a vice president of Investment Banking Department at JP Morgan Securities (Asia Pacific) Limited and as a managing director at DBS Asia Capital Limited. He also served as a managing director of China Resources Capital Holdings Company Limited from March 2010 to January 2016. He was an independent non-executive director of Haier Electronics Group Company Limited (a company listed on the Hong Kong Stock Exchange) from June 2007 to June 2014. He has been an independent non-executive director of Kunlun Energy Company Limited (a company listed on the Hong Kong Stock Exchange) since April 2004, an independent non-executive director of Honghua Group Limited (a company listed on the Hong Kong Stock Exchange) since January 2008, an independent non-executive director of Cinda International Holdings Limited (a company listed on the Hong Kong Stock Exchange) since July 2016 and an independent non-executive director of Sunfonda Group Holdings Limited (a company listed on the Hong Kong Stock Exchange) since May 2017. He has been an independent non-executive director of the Company since September 2017.

Profiles of Directors, Supervisors & Members of the Senior Management

Mr. Wang Xin Yu, aged 47, obtained a M.B.A from the University of Chicago Booth School of Business. He served as the director of MBK Partners from October 2005 to February 2010 and he was a director of Luye Pharma Group Ltd. (listed on the Singapore Stock Exchange) from August 2008 to February 2010. He has acted as the managing director of JP Capital Investment Limited from September 2010 to September 2016. He has been a managing director of Intelligent Capital Limited since September 2016. He has served as an independent non-executive director of the Company from September 2011 to September 2017.

Mr. Wang Ai Guo, aged 53, is a post-doctoral fellow in accountancy in Tianjin University of Finance & Economics (天津財經大學). He has served as an independent non-executive director of the Company from January 2011 to January 2017.

Supervisors:

Mr. Liu Zhen Shun, aged 48, holds a bachelor degree in law. He has served as the head of the legal department and the legal director of Hisense Company Limited. He was the deputy head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited from March 2005 to June 2012. He has been the head of the legal affairs department, the deputy secretary of the discipline inspection committee of Hisense Company Limited since July 2012. He has served as the chairman of the Supervisory Committee of the Company since January 2014.

Mr. Yang Qing, aged 44, holder of a bachelor degree in accounting, has successively served as the finance manager of Qingdao Hisense Air-Conditioning Company Ltd, the finance manager of Qingdao Hisense Marketing Co., Ltd. and the assistant of the general manager of the marketing company of the Company. He has served as the head of the audit department of Hisense Company Limited from June 2013 to May 2014 and the chief accountant of 青島海信網絡科技股份有限公司(Qingdao Hisense Cyber Technology Company Limited) from June 2014 to January 2017. He served as the deputy head of the financial management department of Hisense Company Limited from January 2017 to February 2018. He has served as the head of the financial management department of Hisense Company Limited since February 2018. He has served as a supervisor of the Company since December 2015.

Ms. Fan Wei, aged 51, holds a bachelor degree in textiles, has served as the head and deputy head of the research and development centre of the Company. She was the head of the president office and deputy head of the technical quality department of the Company from December 2008 to February 2015 and the head of the president office of the Company since February 2015. She has served as a supervisor of the Company since June 2015.

Profiles of Directors, Supervisors & Members of the Senior Management

Senior Management Members:

Mr. Wang Zhi Gang, aged 48, holds a doctorate degree in refrigeration and cryogenic engineering, has successively served as the chief designer of the technical centre of Hisense Company Limited, the deputy department head of the commercial machines business department of Qingdao Hisense Air-Conditioning Company Limited, the department head of the product development department of Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd., Mr. Wang has been the deputy general manager of Guangdong Kelon Air-conditioner Co., Ltd from December 2008 to July 2014 and the deputy general manager of Hisense (Shandong) Air Conditioning Co., Ltd. from July 2014 to November 2015. He has served as the vice president of the Company from November 2015 to December 2015. He has served as a director and vice president of the Company from December 2015 to May 2016. He has been a vice president of the company since May 2016.

Ms. Gao Yu Ling, aged 37, holds a master's degree in management. She has successively served as the treasury supervisor, tax supervisor, audit supervisor, accounting supervisor and financial management supervisor of the finance centre of Hisense Electric Co., Ltd.. She was the deputy director of the finance centre of Hisense Electric Co., Ltd. from April 2012 to February 2013. She was the deputy department head of the finance and operation management department of Hisense Company Limited from March 2013 to February 2015. She was a supervisor of the Company from January 2014 to December 2015. She has been the person in charge of finance of the Company since December 2015.

Ms. Huang Qian Mei, aged 34, holds a double bachelor's degree with economics and management. She was the head of investor relations of the Company from August 2010 to October 2011. She was the securities affairs representative from October 2011 to March 2017. She has been the secretary of the board of the Company since March 2017.

Ms. Wong Tak Fong, aged 50, holds a master degree in Business Administration from the University of Bradford, the United Kingdom, and is a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Chartered Secretaries and a certified tax adviser and a fellow member of the Taxation Institute of Hong Kong. She acted as the managing director of General Bright Consultants Ltd. from November 1994 to May 2014. She has been the chief financial controller of Diamond Dragon Fashion Ltd (星薈亞洲有限公司) since December 2010. She acted as a joint company secretary of the Company from April 2011 to June 2012 and has been the company secretary of the Company since June 2012.

Mr. Xia Feng, aged 41, holds a master degree in management, and was previously the head of the capital operating department of Hisense Company Limited, deputy manager of the marketing department of Qingdao Hisense Air-Conditioning Company Limited, and deputy manager of securities department, representative of securities affairs, manager of securities department and secretary of the board of Hisense Electric Co., Ltd.. He was the secretary of the board of the Company from August 2010 to March 2017. He has been the secretary of the board of Hisense Electric Co., Ltd. since May 2017.

Note: Hisense Company Limited and Qingdao Hisense Air-Conditioning Company Limited mentioned in the above profiles are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Report of the Directors

PRINCIPAL BUSINESSES

The Group is principally engaged in development and manufacture of household electrical appliances such as refrigerators, air-conditioners, and domestic and overseas sales of products and provision of after-sale services.

FINAL DIVIDEND

The Group recorded net profit attributable to shareholders of the listed company of RMB1,997.53 million for the year ended 31 December 2017. The Board proposed to pay all shareholders a cash dividend of RMB 4.4 (tax inclusive) per 10 shares held by such shareholder (the “**Proposed Dividend**”) on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2017, without bonus issue and not to issue shares by way of conversion of capital reserve (For the year ended 31 December 2016, the Company paid to all shareholders a cash dividend of RMB3 (tax inclusive) per 10 shares held by such shareholders on the basis of the total share capital of 1,362,725,370 shares of the Company as at 31 December 2016).

The Proposed Dividend is subject to approval by the shareholders at the 2017 annual general meeting (the “**Annual General Meeting**”). Subject to the approval of the Proposed Dividend by the shareholders, the Proposed Dividend is expected to be paid on or about 15 August 2018. The total amount of profits to be so distributed is expected to be RMB599,599,162.80. Details of the payment of the Proposed Dividend will be announced after the conclusion of the Annual General Meeting.

RESERVES

Movements in the reserves of the Group during the Reporting Period are set out in Note 6 (29-32) to the financial statements.

DISTRIBUTABLE RESERVES

There were distributable reserves of the Company as at 31 December 2017 are set out in Note 6 (32) and Note 14 to the financial statements.

LIQUIDITY AND SOURCES OF FUNDS

For the year ended 31 December 2017, net cash generated from operating activities of the Group amounted to approximately RMB455 million (2016: net cash generated from operating activities amounted to approximately RMB2,926 million).

As at 31 December 2017, the Group had bank deposits and cash (including pledged bank balances) amounting to approximately RMB2,996 million (2016: RMB2,227 million), and no bank loans (2016: no bank loans).

Total capital expenditures of the Group for the year ended 31 December 2017 amounted to approximately RMB390 million (2016: RMB295 million).

HUMAN RESOURCES AND EMPLOYEES’ REMUNERATION

As at 31 December 2017, the Group had approximately 33,743 employees, mainly comprising 4,469 technical staff, 14,322 sales representatives, 345 financial staff, 742 administrative staff and 13,865 production staff. The Group had 17 employees with a doctorate degree, 538 with a master’s degree, 4,038 with a bachelor’s degree and 29,150 with a degree under bachelor. For the year ended 31 December 2017, the Group’s staff payroll amounted to RMB2,866 million (corresponding period in 2016 amounting to RMB2,584 million).

EMPLOYEES’ TRAINING AND REMUNERATION POLICY

Employees and talented personnel are the basis for corporate development. Through the platform provided by Hisense College, the Company has established a three-tier training system, a well-rounded curriculum system and a training regulatory system. The Company has also actively promoted the building up of teacher resources internally and externally in order to effectively support the development of its management and technical team and improve its human resources. Every year, the Company will formulate education and training programs for employees based on the annual operational strategy and human resources development needs.

Report of the Directors

The Company has provided 10,847 course hours to a total of 144,701 participants during the Reporting Period. The courses mainly included areas such as corporate management, quality craftsmanship, corporate culture, production and manufacturing, as well as technological research and development and they are provided for employees at different levels, ranging from base level staff responsible for works such as front-line production and marketing to senior management.

The Company adopts a position-based remuneration policy for its staff. Staff remuneration is determined by reference to the relative importance of and responsibility assumed by the position and other performance factors.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2017, the Group did not have any property, plant and equipment (including leasehold land held for own use), investment properties and trade receivables (31 December 2016: nil) which were pledged as security for the Group's borrowings.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 6 (11-12) to the financial statements.

PENSION SCHEMES

Details of the Group's pension schemes for the year ended 31 December 2017 are set out in note 15 to the financial statements.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND ANY RELATED HEDGE

Since part of the purchase and the majority of the overseas sales of the Group during the Reporting Period were denominated in foreign currency, the Group is exposed to certain risk of exchange rate fluctuation. The Group has used financial instruments such as import/export documentary bills and forward contracts for exchange rate hedging purpose.

PUBLIC FLOAT

The Directors confirm that as at 29 March 2018, based on publicly available information and to the best of their knowledge, 25% or above of the total issued share capital of the Company are held by the public. Therefore, the public float of the Company satisfies the requirement stipulated under the Hong Kong Listing Rules.

AUDIT COMMITTEE

The ninth session of the audit committee of the Company has reviewed the final results announcement and report of the final results of the Group for the year ended 31 December 2017.

CAPITAL EXPENDITURE

The Group expects that the capital expenditure for 2018 will be approximately RMB 46 million. The Group has sufficient funds to meet the funding requirement for capital expenditure plans and daily operations.

TRUST DEPOSITS

As at 31 December 2017, the Group did not have any trust deposits with any financial institutions in the PRC. All of the Group's deposits have been deposited in commercial banks and other financial institutions in the PRC and Hong Kong.

Report of the Directors

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group did not have any long-term bank borrowings and its cash and cash equivalents amounted to RMB2,996 million (2016: RMB2,227 million), of which more than RMB2,656 million are denominated in Renminbi.

As at 31 December 2017, the Group's current liabilities amounted to RMB14,109 million, non-current liabilities amounted to RMB411 million, and shareholders' equity attributable to the shareholders of the Company amounted to RMB6,445 million. Details of the Group's capital structure are set out in the financial statements which will be contained in the annual report of the Company.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 67.62% (2016: 72.06%).

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The ninth session of the Board has received a written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with the requirements provided under Rule 3.13 of the Hong Kong Listing Rules. The Company considers that all the independent non-executive Directors of the ninth session of the Board meet the relevant requirements under Rule 3.13 of the Hong Kong Listing Rules and considers them to be independent.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors and the supervisors of the Company has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

The Directors of the ninth session of the Board and the supervisors of the Company do not and did not directly or indirectly hold any material interests in any contract of significance of the Company or its subsidiaries subsisting during or at the end of the year 2017.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the ninth session of the Board have reviewed the continuing connected transactions of the Group for the year 2017, and confirmed that these transactions were conducted in the ordinary course of business of the Group in accordance with the relevant agreements governing them and on normal commercial terms which were fair and reasonable and in the interest of the shareholders of the Company as a whole.

REVIEW OF CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

After auditing the continuing connected transactions of the Group, the auditors of the Company confirmed that the relevant continuing connected transactions of the Group have been approved by the Board, were carried out in accordance with the Company's pricing policies pursuant to the terms of the agreements of the relevant transactions, and have not exceeded the caps disclosed in the previous announcements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in the Hong Kong Listing Rules as its code for securities transaction by Directors. After having made specific enquiries to the Directors, all Directors of the Board confirmed that they had acted in full compliance with the Model Code during their term of office.

Report of the Directors

SHARE CAPITAL STRUCTURE

As at 31 December 2017, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total issued share capital
H shares	459,589,808	33.73%
A shares	903,135,562	66.27%
Total	1,362,725,370	100.00%

TOP TEN SHAREHOLDERS

As at 31 December 2017, there were 35,036 shareholders of the Company (the “Shareholders”) in total, of which the top ten Shareholders were as follows:

Name of Shareholder	Nature of Shareholder	No. of shares held	Percentage to the total issued share capital of the Company	Percentage to the relevant class of issued shares of the Company	No. of shares held subject to trading moratorium
Qingdao Hisense Air-conditioning Company Limited	State-owned legal person	516,758,670	37.92%	57.22%	0
HKSCC (Nominees) Limited ^{Note 1}	Foreign legal person	458,176,069	33.62%	99.69%	0
Central Huijin Asset Management Co., Ltd.	State-owned legal person	26,588,700	1.95%	2.94%	0
China Merchants Bank Co., Ltd. – Cathay Pacific Growth Optimized Hybrid Securities Investment Fund ^{Note 2}	Other	23,455,864	1.72%	2.60%	0
Bank of China Ltd. – Putting Up JP Morgan Core Growth Equity Securities Investment Fund	Other	16,906,166	1.24%	1.87%	0
Taikang Life Insurance Co., Ltd. – Investment Link-Industry Configuration	Other	11,041,582	0.81%	1.22%	0
China Construction Bank Corporation – Cathay Pacific Jinxin Securities Investment Fund ^{Note 2}	Other	10,711,093	0.79%	1.19%	0
China Life Insurance Co., Ltd. – Traditional-General Insurance-005L-CT001	Other	10,340,256	0.76%	1.14%	0
Hong Kong Securities Clearing Company Limited	Foreign legal person	8,203,199	0.60%	0.91%	0
China Construction Bank Corporation – Huitianfu Consumer Industry Hybrid Securities Investment Fund	Other	8,000,038	0.59%	0.89%	0

Notes:

- The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, held a total of 97,202,000 H shares of the Company as at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company;

Report of the Directors

2. The manager of both China Merchants Bank Co., Ltd.-Cathay Pacific Growth Optimized Hybrid Securities Investment Fund and China Construction Bank Corporation-Cathay Pacific Jinxin Securities Investment Fund is Cathay Pacific Fund Management Co., Ltd.;
3. As at the date being one month preceding the date of the announcement of result (that is, 29 March 2018), the total number of shareholders holding ordinary shares is 37,418.

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF TRADABLE SHARES

Name of Shareholders	Number of tradable shares held	Class of shares
Qingdao Hisense Air-conditioning Company Limited	516,758,670	RMB ordinary shares
HKSCC (Nominees) Limited ^{Note 1}	458,176,069	Overseas listed foreign shares
Central Huijin Asset Management Co., Ltd.	26,588,700	RMB ordinary shares
China Merchants Bank Co., Ltd. – Cathay Pacific Growth Optimized Hybrid Securities Investment Fund ^{Note 2}	23,455,864	RMB ordinary shares
Bank of China Ltd. – Putting Up JP Morgan Core Growth Equity Securities Investment Fund	16,906,166	RMB ordinary shares
Taikang Life Insurance Co., Ltd. – Investment Link-Industry Configuration	11,041,582	RMB ordinary shares
China Construction Bank Corporation – Cathay Pacific Jinxin Securities Investment Fund ^{Note 2}	10,711,093	RMB ordinary shares
China Life Insurance Co., Ltd. – Traditional-General Insurance-005L-CT001	10,340,256	RMB ordinary shares
Hong Kong Securities Clearing Company Limited	8,203,199	RMB ordinary shares
China Construction Bank Corporation – Huitianfu Consumer Industry Hybrid Securities Investment Fund	8,000,038	RMB ordinary shares

Note:

1. The shares held by HKSCC Nominees Limited are held on behalf of a number of its account participants, among which, Hisense (Hong Kong) Company Limited, a party acting in concert with the controlling shareholder of the Company, held a total of 97,202,000 H shares of the Company as at the end of the Reporting Period, representing 7.13% of the total number of shares of the Company;
2. The manager of both China Merchants Bank Co., Ltd.-Cathay Pacific Growth Optimized Hybrid Securities Investment Fund and China Construction Bank Corporation-Cathay Pacific Jinxin Securities Investment Fund is Cathay Pacific Fund Management Co., Ltd.;

Save as disclosed above, the Company is not aware of whether any shareholders is connected with each other or any of them is a party acting in concert with any of the other within the meaning of 《上市公司收購管理辦法》 (Administrative Measures for the Takeover of Listed Companies).

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

So far as is known to the Directors, supervisors and the chief executive of the Company, as at 31 December 2017, the following persons (other than the Directors, supervisors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”), or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange:

Long position or short position in the shares of the Company

Name of shareholder	Capacity	Class of shares	Number of shares held	Percentage of the respective type of shares	Percentage of the total number of shares in issue
Qingdao Hisense Air-conditioning Company Limited ^{Note 1}	Beneficial owner	A shares	516,758,670 (L)	57.22%	37.92%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	A shares	516,758,670 (L)	57.22%	37.92%
Hisense (Hong Kong) Company Limited ^{Note 1}	Beneficial owner	H shares	97,202,000 (L)	21.15%	7.13%
Qingdao Hisense Electric Holdings Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%
Hisense Company Limited ^{Note 1}	Interest of controlled corporation	H shares	97,202,000 (L)	21.15%	7.13%

The letter “L” denotes a long position.

Notes:

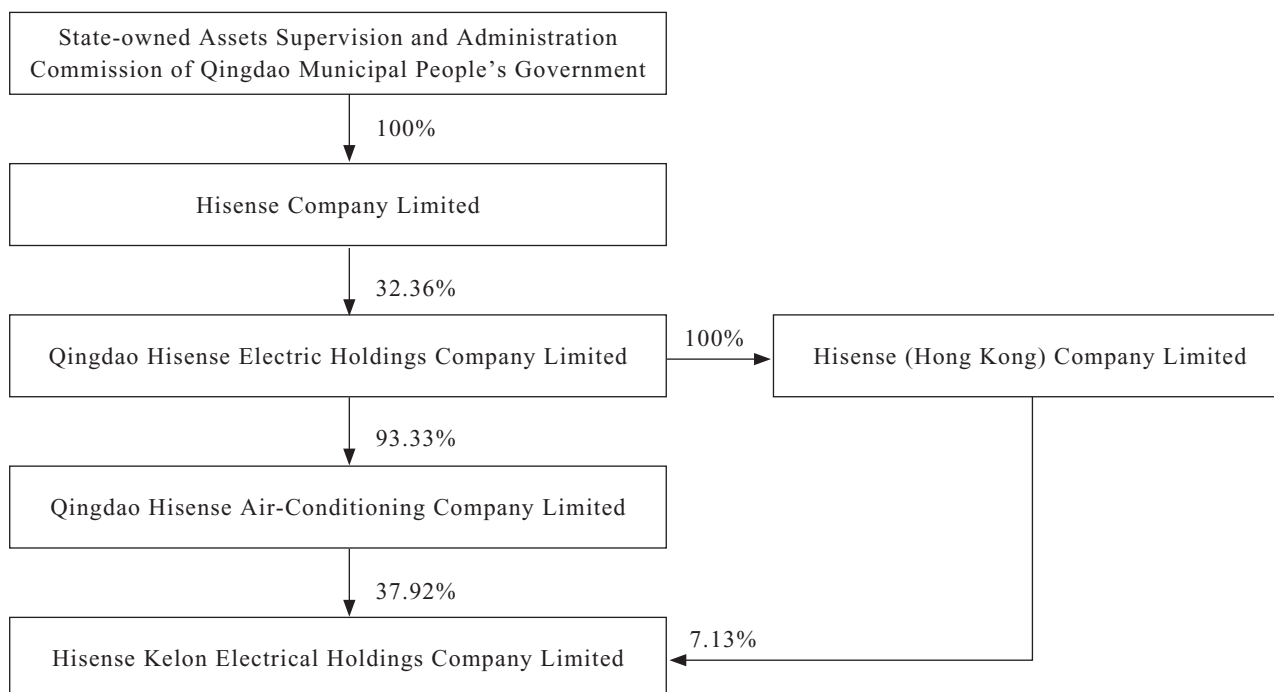
1. Qingdao Hisense Air-conditioning Company Limited is a company directly owned as to 93.33% by Qingdao Hisense Electric Holdings Company Limited, whereas Hisense (Hong Kong) Company Limited is a company directly owned as to 100% by Qingdao Hisense Electric Holdings Company Limited. Qingdao Hisense Electric Holdings Company Limited is in turn owned as to 32.36% by Hisense Company Limited. By virtue of the SFO, Qingdao Hisense Electric Holdings Company Limited and Hisense Company Limited were deemed to be interested in the same parcel of A shares of which Qingdao Hisense Air-conditioning Company Limited was interested and in the same parcel of H shares of which Hisense (Hong Kong) Company Limited was interested.

Save as disclosed above, as at 31 December 2017, in so far as the Directors, supervisors and chief executive of the Company are aware, there was no other interest and/or short position held by any person in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Report of the Directors

PARTICULARS OF THE CONTROLLING SHAREHOLDERS OF THE COMPANY

1. Qingdao Hisense Air-Conditioning Company Limited, the controlling shareholder of the Company, was incorporated on 17 November 1995. Its registered address is Changsha Road, Hi-tech Industrial Zone, Qingdao, the PRC and the legal representative is Mr. Tang Ye Guo and its registered capital is RMB674.79 million. Its business scope is the development and manufacture of air-conditioning products and injection moulds and the provision of after-sale repairing services for its products (Permit/licence shall be obtained for the operation of the businesses above if they fall into the requirements of licensure).
2. The beneficial controller of the Company is Hisense Company Limited, which was incorporated in August 1979 with its registered address at No. 17 Donghai West Road, Shinan, Qingdao. Mr. Zhou Houjian is the legal representative of Hisense Company Limited and its registered capital is RMB806.17 million. The scope of business includes: the entrusted operation of state-owned assets; the manufacture and sales of TV sets, refrigerators, freezers, washing machines, small household appliances, disc players, audio sets, broadcasting appliances, air-conditioners, electronic computers, telephones, communication products, internet products and electronic products and the provision of related services; the development of software and the provision of internet services; the technological development and the provision of consultation services; the self-operated import and export business (with its operation subject to the list of projects as approved by the MOFTEC); the foreign economic and technical cooperation (with its operation subject to the list of projects as approved by the MOFTEC); operation of property rights transaction and provision of brokerage and information services; provision of industrial travel agency services; provision of relevant business trainings, property management, leasing of tangible property and leasing of immovable property (projects which require permit/approval under the laws, commencement of operations of the businesses which require approval from the relevant department).
3. The ultimate beneficial controller of the Company is the State-owned Assets Supervision and Administration Commission of Qingdao Municipal People's Government.
4. Relationship between the Company and its beneficial controllers:



5. During the Reporting Period, there was no change in the controlling shareholders of the Company.

Report of the Directors

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, save as disclosed below and in the sub-section “Movements of the share options during the Reporting Period” under the section headed “Summary on adoption of first share option incentive scheme and the grant thereunder”, none of the members of the Board, supervisors and the chief executive of the Company held any interests or short positions in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be maintained by the Group pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Long position in the shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage to the total issued shares of the Company (%)	Percentage to the relevant class of issued shares of the Company (%)
Tang Ye Guo	Beneficial owner	831,600 A Shares	0.061	0.092
Jia Shao Qian	Beneficial owner	539,060 A Shares	0.040	0.060
Wang Yun Li	Beneficial owner	52,120 A Shares	0.004	0.006

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the aggregate amount of the Group’s purchases from the top five suppliers was RMB4,609 million, representing 19.16% of the total purchase amount of the Group for the year and the aggregate sales amount to the top five customers was RMB12,564 million, representing 41.28% of the total sales amount of the Group for the year. In particular, the sales amount from the largest customer accounted for 15.26% of the Group's total annual sale amount. Among the five customers, the first and fifth customers and the Company are controlled by Hisense Group and have connected relationship with the Company. Except for this, other customers have no connected relationship with the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDITOR

On 28 June 2017, as considered and approved at the shareholders’ general meeting of the Company, the Company agreed to re-appoint Ruihua Certified Public Accountants as the auditor of the Company for the financial year of 2017, and the Board was authorized to fix their remuneration.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company or the relevant PRC laws.

TAXATION

Pursuant to the relevant tax regulations, the Company is required to withhold and pay corporate income tax at the rate of 10% when distributing dividends to non-resident enterprise shareholders whose names appear on the H-share register of members.

Report of the Directors

PARTICULARS OF MATERIAL CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

- (I) **On 10 November 2015, the Company entered into the Financial Services Agreement with Hisense Finance. On 3 August 2016, the Company entered into the Supplemental Agreement to the Financial Services Agreement with Hisense Finance. On 17 November 2016, the Company entered into the Business Co-operation Framework Agreement, Business Framework Agreement 1 and the Purchase Financing Agency Framework Agreement with Hisense Group, Hisense Electric, Hisense Hitachi and Hisense Hong Kong respectively. On 10 May 2017, the Company entered into a Second Supplemental Agreement to the Financial Services Agreement and the Factoring Services Agreement with Hisense Finance and Hisense Commercial Factoring respectively. On 31 August 2017, the Company entered into the supplemental agreement to Business Framework Agreement 1 with Hisense Hitachi.**

Hisense Air-conditioning is a connected person of the Company by virtue of being a substantial shareholder of the Company, holding approximately 37.92% of the issued shares of the Company and Hisense Hong Kong holds approximately 7.13% of the issued shares of the Company and Hisense Electric is owned as to 39.53% by Hisense Group, Hisense Group, Hisense Electric and their respective subsidiaries (including without limitation Qingdao Hisense International Co., Ltd and its subsidiaries) are connected persons of the Company according to the Hong Kong Listing Rules. Hisense Finance and Hisense Commercial Factoring are subsidiaries of Hisense Group, Hisense Finance and Hisense Commercial Factoring therefore are connected persons of the Company according to the Hong Kong Listing Rules. As a director of the Company are also senior management of Hisense Hitachi, Hisense Hitachi is a connected person of the Company according to the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange.

Details of the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the Financial Services Agreement, the Supplemental Agreement and the Second Supplemental Agreement to the Financial Services agreement with Hisense Finance, the Business Framework Agreement 1 and the supplemental agreement to the Business Framework Agreement 1 with Hisense Hitachi and the Factoring Services Agreement with Hisense Commercial Factoring can be found in the announcements and the circulars published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 10 November 2015, 2 December 2015, 3 August 2016, 8 September 2016, 17 November 2016, 23 December 2016, 10 May 2017, 8 June 2017 and 31 August 2017 respectively.

As Hisense Group is the beneficial controller of both Hisense Hong Kong and the Company, Hisense Hong Kong is a connected person of the Company under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. Hisense Hong Kong is also a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Since the financial assistance arrangement under the Purchase Financing Agency Framework Agreement would be for the benefit of the Company on normal commercial terms where no security over the assets of the Company was to be granted in respect of the financial assistance, such arrangement was exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules. Details of the Purchase Financing Agency Framework Agreement can be found in the announcement published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 17 November 2016.

Report of the Directors

The above transactions (other than the Business Framework Agreement 1 and the supplemental agreement to the Business Framework Agreement 1 with Hisense Hitachi) constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules for the relevant connected transactions (other than the Purchase Financing Agency Framework Agreement which is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules). Specific information of the Business Co-operation Framework Agreement, the Financial Services Agreement, the supplemental agreement to the Financial Services Agreement, the second supplemental agreement to the Financial Services Agreement and the Factoring Services Agreement are set out as follows:

1. The Business Co-operation Framework Agreement with Hisense Group and Hisense Electric

On the one hand, the supply of home electrical appliances, raw materials and parts and components, equipment and moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries can help to lower the production costs of the Group as a result of the increase in production level, which in turn enhance the market competitiveness of the Group's products. At the same time, the Group can continue to develop overseas market and enhance brand competitiveness and awareness. The Group can also increase market share by selling products through the online platform of Hisense Group and Hisense Electric which reduces the product circulation links. Provision of services to Hisense Group and/or its subsidiaries will increase the income of the Group. On the other hand, taking into account the product quality, prices and services provided by Hisense Group, Hisense Electric and/or their respective subsidiaries, purchases of home electrical appliances, equipment, raw materials and parts and components from Hisense Group, Hisense Electric and/or their respective subsidiaries and engagement of their services can meet the manufacture needs of the Company and the development of related business, and can also help reduce costs. As such, the Company entered into the Business Co-operation Framework Agreement with Hisense Group and Hisense Electric, the principal terms of which are as follows:

- (1) The Business Co-operation Framework Agreement shall commence from the date of approval of the Business Co-operation Framework Agreement from 9 January 2017 until 31 December 2017, which can be terminated before its expiration by mutual agreement of the parties.
- (2) Pricing for the mutual purchase of home electrical appliances between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness mainly with reference to the market price of similar home electrical appliances. Pricing for the mutual purchase of raw materials, equipments, parts and components between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiation between the parties according to the principles of fairness and reasonableness. Pricing for the supply of moulds by the Group to Hisense Group, Hisense Electric and/or their respective subsidiaries is the market price determined by the open bidding process. Pricing for the mutual provision of services between the Group on the one hand and Hisense Group, Hisense Electric and/or their respective subsidiaries on the other hand is determined by commercial negotiations according to the principles of fairness and reasonableness between the parties with reference to the market price for the provision of similar services in the industry.

Report of the Directors

- (3) The annual caps under the Business Co-operation Framework Agreement are shown in the table below:

Unit: RMB (ten thousand) (exclusive value-added tax)

Types of connected transactions	Division by products or services	Connected person	Annual cap
Sale of products and materials	Sale of home electrical appliances products by the Group	Hisense Group	1,023,899
		Hisense Electric	214
	Sale of equipment by the Group	Hisense Group	1,930
	Sale of moulds by the Group	Hisense Group	33,100
		Hisense Electric	12,000
Sale of raw materials, parts and components by the Group	Hisense Group	4,809	
	Hisense Electric	6,400	
Provision of services	Provision of design, processing services and property services by the Group	Hisense Group	3,528
	Provision of processing services by the Group	Hisense Electric	200
Purchase of products and materials	Purchase of home electrical appliances products by the Group	Hisense Group	100
		Hisense Electric	60
Purchase of raw materials, parts and components by the Group	Hisense Group	10,407	
	Hisense Electric	1,460	
Receipt of services	Receipt of material processing, installation and maintenance, property, medical, leasing, design, inspection, testing, property construction, management consultancy, technical support and information system maintenance by the Group	Hisense Group	54,854
	Receipt of property, technical support and advertisement services by the Group	Hisense Electric	3,406

2. The Financial Services Agreement, the Supplemental Agreement to the Financial Services Agreement and the Second Supplemental Agreement to the Financial Services Agreement with Hisense Finance and the Factoring Services Agreement with Hisense Commercial Factoring

The Group is expected to benefit from the rates on loans and deposits offered by Hisense Finance to the Group, which will be equal to or more favourable than those offered by the PRC commercial banks, and at the same time, Hisense Finance's better understanding of the operations of the Group which should allow the provision of more expedient and efficient services than those offered by PRC commercial banks. On the other hand, Hisense Finance is regulated by 中國銀行業監管管理委員會 (China Banking Regulatory Commission) and complies with the regulations and operation requirements issued by the relevant regulatory authorities in its provision of financial services. The primary customers of Hisense Finance are the companies within the Hisense Group. In general, as the risks exposed to Hisense Finance are less than those exposed to the financial institutions with a broad and unrestricted customer base, Hisense Finance is able to safeguard the customers' funds more effectively. As such, the Company entered into the Financial Services Agreement, the Supplemental Agreement to the Financial Services Agreement and the Second Supplemental Agreement to the Financial Services Agreement with Hisense Finance, the principal terms of which are as follows:

- (1) The term of the Financial Services Agreement shall commence from 1 January 2016 until 31 December 2017, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The services to be provided by Hisense Finance to the Group include deposit services, loan and electronic bank acceptance bill (電子銀行承兌匯票) services, draft discount services (票據貼現服務), settlement and sale of foreign exchange services (結售匯服務) and agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務).
- (3) The maximum daily balance of the deposits placed by the Group with Hisense Finance at any time during the term of the Financial Services Agreement shall not exceed the cap of RMB6,000,000,000 (inclusive of interest) on any given day. The maximum balance of loan and electronic bank acceptance bills provided by Hisense Finance for the Group during the term of the Financial Services Agreement shall not exceed the cap of RMB6,000,000,000 (inclusive of interest and service fees). The annual discount interest payable by the Group to Hisense Finance for the provision of draft discount services during the term of the Financial Services Agreement shall not exceed the cap of RMB50,000,000. The annual amount settled or sold by Hisense Finance for the Group shall not exceed the cap of US\$700,000,000. The annual amount of the service fees payable by the Group to Hisense Finance for the provision of agency services such as settlement services for receipt and payment of funds (資金收支結算等代理類服務) shall not exceed the cap of RMB3,000,000.

In order to meet the operational needs of the Company, the Company and Hisense Commercial Factoring have entered into the Factoring Services Agreement, the major terms of which are set out below:

- (1) The term of the Factoring Services Agreement shall commence from 28 June 2017 until 27 June 2018, which can be terminated by either party if the other party is in default and such default is not remedied within a reasonable period.
- (2) The daily closing balance of the recourse factoring services provided by Hisense Commercial Factoring to the Company at Hisense Commercial Factoring under the Factoring Services Agreement shall not exceed RMB100,000,000 (inclusive of interest). The aggregated annual value of the transactions conducted for the non-recourse factoring services provided by Hisense Commercial Factoring to the Company under the Factoring Services Agreement during the term of the Factoring Services Agreement shall not exceed RMB500,000,000 (inclusive of interest).

Report of the Directors

(II) During the Reporting Period, certain connected transactions in relation to ordinary operation have been entered into, details of which are as follows:

Connected parties	Type of connected transaction	Particulars of connected transaction	Pricing principle of connected transaction	Connected transaction amount (RMB ten thousand)	Percentage of total amount of similar transactions (%)
Hisense Group	Purchase	Finished goods	Agreed price	87.35	
Hisense Electric	Purchase	Finished goods	Agreed price	7.51	
Hisense Group	Purchase	Materials	Agreed price	10,325.28	0.38
Hisense Electric	Purchase	Materials	Agreed price	879.67	0.03
Hisense Hitachi	Purchase	Materials	Agreed price	1,230.73	0.05
Hisense Group	Receipt of services	Receipt of services	Agreed price	43,232.31	1.60
Hisense Electric	Receipt of services	Receipt of services	Agreed price	1,950.62	0.07
Hisense Hong Kong	Receipt of purchase financing agency services	Receipt of purchase financing agency services	Agreed price	33,427.12	1.24
Hisense Group	Sale	Finished goods	Agreed price	739,896.93	22.09
Hisense Electric	Sale	Finished goods	Agreed price	68.04	
Hisense Hitachi	Sale	Finished goods	Agreed price	39,078.82	1.17
Hisense Group	Sale	Materials	Agreed price	4,264.09	0.13
Hisense Electric	Sale	Materials	Agreed price	2,726.54	0.08
Hisense Hitachi	Sale	Materials	Agreed price	199.05	0.01
Hisense Group	Sale	Moulds	Market price	32,189.43	0.96
Hisense Electric	Sale	Moulds	Market price	7,653.88	0.23
Hisense Hitachi	Sale	Moulds	Market price	2,037.44	0.06
Hisense Group	Sale	Equipment	Market price	27.93	0.01
Hisense Group	Provision of services	Provision of services	Agreed price	2,096.82	0.06
Hisense Electric	Provision of services	Provision of services	Agreed price	9.87	
Hisense Hitachi	Provision of services	Provision of services	Agreed price	13.16	

As at the end of the Reporting Period, the Company and its subsidiaries had the balance of deposit of RMB2,618 million and interest income received of RMB25.7674 million, the actual balance of loan of RMB0 balance of electronic bank acceptance bill of RMB3,237 million, and the handling fee for opening accounts for electronic bank acceptance bill of RMB4.0205 million with Hisense Finance. The actual amount of discounted interest for the provision of draft discount services was RMB5.79 million, the actual amount involved for the provision of settlement and sale of foreign exchange services was RMB73.6946 million and the actual service fee paid for the provision of agency services such as settlement services for receipt and payment of funds was RMB0.3101 million. The Company and its subsidiaries had the actual balance of the recourse factoring services of RMB0 and the actual value of the transaction conducted for the non-recourse factoring services is RMB401.181 million with Hisense Commercial Factoring.

Report of the Directors

(III) During the Reporting Period, the Company and its connected persons (within the meaning under Chapter 14A of the Hong Kong Listing Rules) have entered into the following agreements, involving transactions between the Group and the relevant connected persons after the Reporting Period:

No.	Agreement	Counterparty to the agreement	Particulars of connected transactions	Annual cap
1	Business Co-operation Framework Agreement dated 28 November 2017	Hisense Group and Hisense Electric	Purchase of home electrical appliances by the Group	RMB1,670,000
			Purchase of raw materials, parts and components by the Group	RMB235,860,000
			Receipt of services by the Group	RMB642,480,000
			Supply of home electrical appliances by the Group	RMB13,051,860,000
			Supply of equipment by the Group	RMB16,500,000
			Supply of moulds by the Group	RMB453,550,000
			Supply of raw materials, parts and components by the Group	RMB180,730,000
			Provision of services by the Group	RMB30,220,000
2	Purchase Financing Agency Framework Agreement dated 28 November 2017	Hisense Hong Kong	Receipt of financing agency services by the Group to purchase imported raw materials, components and equipment	US\$100,000,000
3	Financial Services Agreement dated 28 November 2017	Hisense Finance	Receipt of deposit service by the Group	The maximum daily balance is RMB6,500,000,000 with interests
			Receipt of loan, electronic bank acceptance bill service by the Group	The maximum daily balance is RMB6,000,000,000 inclusive interest and service charges
			Receipt of draft discount service by the Group	Discount interest payable: RMB50,000,000
			Receipt of settlement and sale of foreign exchange by the Group	US\$500,000,000
			Receipt of agency services such as settlement services for receipt and payment of funds by the Group	Service fees payable: RMB3,000,000
4	Financial Business Framework Agreement dated 28 November 2017	Hisense Financial Holdings	Receipt of factoring business by the Group	The daily closing balance of the recourse factoring services: RMB100,000,000 (inclusive of interest) with interests; Non-recourse factoring: RMB500,000,000 (inclusive of interest) with interests

The terms of the Business Co-operation Framework Agreement, the Purchase Financing Agency Framework Agreement and the Financial Services Agreement commence from the date of which such agreements were approved by the independent shareholders (that is, 18 January 2018) until 31 December 2018. The Financial Business Framework Agreement commences from the date on which such agreement was approved by the independent shareholders (that is, 18 January 2018) until 31 December 2019. The relationship between the Group on one hand and Hisense Group, Hisense Electric, Hisense Hong Kong, Hisense Finance and Hisense Financial Holdings on the other hand has been disclosed above.

Details of the agreements can be found in the announcement and the circular published on the website of the Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 28 November 2017 and 3 January 2018 respectively.

Report of the Directors

CORPORATE GOVERNANCE CODE

To the best knowledge and information of the Company, during the Reporting Period, the Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules.

NOTE: SUPPLEMENTARY INFORMATION AS REQUIRED BY THE HONG KONG STOCK EXCHANGE IN RELATION TO THE COMPANY'S A SHARE ANNUAL RESULTS ANNOUNCEMENT

I. PARTICULARS OF THE REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Gender	Age	Status	Total amount of remuneration before tax received from the Company (RMB ten thousand)	Whether receive remuneration from connected party of the Company
Tang Ye Guo	Chairman	Male	55	Current	326.89	No
Liu Hong Xin	Director	Male	51	Current	0	Yes
Lin Lan	Director	Male	60	Current	0	Yes
Dai Hui Zhong	Director	Male	52	Current	11.67	Yes
Jia Shao Qian	Director, President	Male	45	Current	195.20	No
Wang Yun Li	Director, Vice President	Male	45	Current	227.49	No
Ma Jin Quan	Independent non-executive Director	Male	75	Current	14	No
Xu Xiang Yi	Independent non-executive Director	Male	62	Current	14	No
Liu Xiao Feng	Independent non-executive Director	Male	56	Current	6.55	No
Liu Zhen Shun	Chairman of Supervisory Committee	Male	48	Current	0	Yes
Yang Qing	Supervisor	Male	44	Current	0	Yes
Fan Wei	Supervisor	Female	51	Current	79.29	No
Wang Zhi Gang	Vice President	Male	48	Current	163.63	No
Gao Yu Ling	Person in charge of finance	Female	37	Current	97.09	No
Huang Qian Mei	Secretary to the Board	Female	34	Current	20.75	No
Wong Tak Fong	Company Secretary	Female	50	Current	17.32	No
Wang Xin Yu	Former Independent non-executive Director	Male	47	Resigned	17.45	No
Wang Ai Guo	Former Independent non-executive Director	Male	53	Resigned	0	No
Xia Feng	Former Secretary to the Board	Male	41	Resigned	8.05	Yes

Report of the Directors

II. THE DECISION-MAKING PROCEDURES AND BASIS OF DETERMINATION OF THE REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the Directors of the Company is determined based on recommendations made to the Board by the remuneration and appraisal committee of the Board on the basis of the duties of the Directors and the remuneration level of other listed companies in the same industry, and is subject to consideration and approval by the Board and the shareholders at general meetings.

The remuneration of the supervisors is determined based on recommendation made by the supervisory committee on the basis of the duties of the supervisors and the remuneration level of other listed companies in the same industry and is subject to consideration and approval by the Board and the shareholders at general meetings. The remuneration and appraisal committee of the Board makes remuneration recommendation to the Board based on the senior management's experience, responsibilities, risk and pressure undertaken for operation under his/her management and his/her contribution to the Company. The said remuneration recommendation is determined and approved by the Board. The final remuneration received by the senior management is also linked with his/her annual performance review.

The Company determines and pays the remuneration of the Directors, supervisors and senior management in accordance with the above requirements and procedures.

III. CONNECTED TRANSACTION IN RELATION TO JOINT EXTERNAL INVESTMENT

Unit: RMB (in ten thousand)

Joint venture parties	Connected relationship	Name of the joint venture company	Major business of the joint venture company	Registered capital of the joint venture company (RMB ten thousand)	Total assets of the joint venture company (RMB ten thousand)	Net asset of the joint venture company (RMB ten thousand)	Net profit of the joint venture company (RMB ten thousand)
Hisense Financial Investment Co., Ltd., Hisense International Co., Ltd., Qingdao Hisense Intelligent Commercial System Co., Ltd., Qingdao Hisense Electronic Equipment Co., Ltd.	Controlled by the same beneficial controller	Hisense Financial Holdings Co., Ltd.	Engaged in asset management, investment management, equity investment, equity investment management, venture capital investment, and venture capital investment management with its own capital, security business investment management, entrusted management of equity investment fund, technology investment and technology consultation in financial software, business management and consultation, business information consultation, commencement of creditors' investment, short-term financial investment, investment planning and consultation which targeted on the entity's economic project within the approved regions.	100,000.00	244,344.81	102,045.50	2,047.40
Progress of significant projects in progress of the joint venture company (if any)					Not applicable.		

Report of the Directors

IV. PARTICULARS OF ENTRUSTED WEALTH MANAGEMENT

Particulars of Entrusted Wealth Management during the Reporting Period

unit: RMB ten thousand

Product Type	Source of funding for entrusted wealth management	Subscription amount of entrusted wealth management	Amount of undue principal and revenue	Overdue balance
Bank wealth management product	self-owned funds	163,000.00	108,000.00	0
Entrusted wealth management product	self-owned funds	30,000.00	0	0
Total		193,000.00	108,000.00	0

PARTICULARS OF INDIVIDUAL SIGNIFICANT TRANSACTION OR LOW SAFETY, IMMOBILE, UNGUARANTEED HIGH RISK ENTRUSTED WEALTH MANAGEMENT

Name of issuing institution (or name of issuer)	Type of issuing institution or issuer	Product type	Amount	source of funding	commencement date	termination date	Funding	Compensation Method	Reference annual rate of return	expected profit if any	The actual amount of profit or loss during the Reporting Period	Actual profit or less upon redemption during the Reporting Period	Amount of provision for impairment (if any)	Whether any legal disputes involved	any future plans to entrust wealth management
The Agricultural Bank of China	Bank	Non-principal-guaranteed with floating return	50,000	self-owned funds	18 October 2016	7 February 2017	Bank wealth management product	The agreed referential annual return in contract	3.7%	567.67	567.67	already redeemed on time	0	Yes	Yes
Shanghai Pudong Development Bank Co., Ltd.	Bank	Non-principal-guaranteed with floating return	60,000	self-owned funds	22 March 2017	28 March 2017	Bank wealth management product	The agreed referential annual return in contract	3.45%	39.70	39.70	already redeemed on time	0	Yes	Yes
Total			110,000	-	-	-	-	-	-	607.37	607.37	-	0	-	-

Report of the Directors

V. DERIVATIVES INVESTMENT

Unit: RMB (in ten thousand)

Name of operators of derivatives investment	Whether or not a connected transaction	Type of derivatives investment	Initial investment of derivatives investment	Effective Date	Expiry Date	Investment at the beginning of the Reporting Period	Amount of purchase during the Reporting Period	Amount of disposal during the Reporting Period	Amount of provision for impairment (if any)	Investment at the end of the Reporting Period	Proportion of investment to the net asset of the Company at the end of the Reporting Period (%)	Actual amount of profit and loss during the Reporting Period
Bank	No	No	Forward foreign exchange contracts	56,601.75	1 January 2017	31 December 2017	56,601.75	9,020.59	60,572.29	5,050.05	0.78	-1,254.02
Source of derivatives investment funding											Export trade receipts	
Litigation involved (if applicable)											Not applicable	
Date of the announcement disclosing the approval of derivatives investment by the Board (if any)											29 March 2017	
Date of the announcement disclosing the approval of derivatives investment during shareholders' meetings (if any)											Not applicable	
Risk analysis of positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)			The derivatives business of the Company mainly represents the forward foreign exchange contracts used to avoid the risk of foreign exchange fluctuations related to the overseas sales receivables. The Company locks in the foreign exchange rates within a reasonable range to achieve the hedging purpose. The Company has formulated the "Management Measures for the Foreign Exchange Capital Business" and "the Internal Control System for Forward Foreign Exchange Capital Transactions". The measures specifically regulate the basic principles, operation rules, risk control measures and internal controls that shall be followed when engaging in the derivatives business. In respect of actual business management, the Company manages the derivatives business before, during and after the operation based on the management measures for the derivatives business.									
Changes in market price or product fair value of invested derivatives during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value			The assessment of the fair value of the derivatives carried out by the Company mainly represents the outstanding foreign exchange forward contracts entered into by the Company and banks during the Reporting Period, which are recognized as transactional financial assets or liabilities based on the difference between the quotation of the outstanding foreign exchange forward contracts and the forward exchange rate as at the end of the period. During the Reporting Period, the Company recognized a gain on change in fair value of the derivatives of RMB-9.9861 million. Investment gain amounted to RMB-2.5541 million, resulting in a total profits or losses of RMB-12.5402 million.									
Explanations of any significant changes in the Company's accounting policies and specific accounting and auditing principles on derivatives between the Reporting Period and the last reporting period			During the Reporting Period, there were no material changes in the accounting policy and specific accounting and auditing principles for the Company's derivatives business as compared to last reporting period.									
Specific opinions of independent Directors on the derivatives investment and risk control of the Company			Opinion of independent directors: Commencement of foreign exchange derivatives business by the Company was beneficial to the Company in the prevention of exchange rate fluctuation risks. The Company has devised the Internal Control System for Forward Foreign Exchange Capital Transactions to strengthen internal control and enhance the management of foreign exchange risks by the Company, and the targeted risk control measures adopted were practicable.									

Report of the Directors

VI. DESCRIPTION OF CHANGES IN SCOPE OF CONSOLIDATION AS COMPARED TO FINANCIAL REPORT LAST YEAR

Newly consolidated subsidiary:

The Company has established a new subsidiary, namely Hisense Mould (Deutschland) GmbH during the Reporting Period and its results are now consolidated into the Company's accounts for the Reporting Period.

Cease to be a subsidiary:

During the Reporting Period, Kelon (Japan) Limited, the then wholly owned subsidiary of the Company, was deregistered and its results ceased to form part of the Company's account for the Reporting Period.

During the Reporting Period, the Company transferred all its equity interest in Foshan City Shunde District Baohong Management Company Limited. The corresponding procedure relating to the transfer of equity interests have completed. As such, the results of the said company ceased to form part of the Company's accounts for the Reporting Period.

This announcement is published in both English and Chinese. If there is any conflict between the English and the Chinese versions, the Chinese version shall prevail.

DEFINITIONS

In the announcement, unless the context requires otherwise, the following terms or expressions shall have the following meanings:

“Company”, “the Company” or “Kelon”	Hisense Kelon Electrical Holdings Company Limited
“Hisense Air-Conditioning”	Qingdao Hisense Air-Conditioning Company Limited
“Hisense Electric”	Hisense Electric Co., Ltd.
“Hisense Group”	Hisense Company Limited
“Hisense Hitachi”	Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.
“Hisense Finance”	Hisense Finance Company Limited
“Hisense Hong Kong”	Hisense (Hong Kong) Company Limited
“Hisense Financial Holdings”	Qingdao Hisense Financial Holdings Co., Ltd.
“Hisense Commercial Factoring”	Hisense Commercial Factoring Co., Ltd
“Hong Kong”	The Hong Kong Special Administrative Region of the People's Republic of China
“RMB”	Renminbi
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

Report of the Supervisory Committee

Dear Shareholders:

During the reporting period, the Supervisory Committee of Hisense Kelon Electrical Holdings Company Limited has faithfully discharged its duties to protect the lawful interests of the Company, its staff and shareholders in compliance with the relevant requirements of the Company Law of the PRC, the Listing Rules of Shenzhen Stock Exchange, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the articles of association of the Company. We would like to report to you the work of the Supervisory Committee during 2017 in accordance with the articles of association of the Company:

I. WORK OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Supervisory Committee held a total of 4 meetings, details of which are summarized as follows:

- (1) The first meeting of the ninth session of the Supervisory Committee in 2017 was held on 29 March 2017, at which the 2016 annual report of the Company and related matters were considered and approved;
- (2) The second meeting of the ninth session of the Supervisory Committee in 2017 was held on 13 April 2017, at which the 2017 first quarterly report of the Company was considered and approved;
- (3) The third meeting of the ninth session of the Supervisory Committee in 2017 was held on 10 August 2017, at which the 2017 interim report of the Company was considered and approved; and
- (4) The fourth meeting of the ninth session of the Supervisory Committee in 2017 was held on 18 October 2017, at which the 2017 third quarterly report of the Company was considered and approved.

II. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS OF THE COMPANY IN 2017

- (1) Operation of the Company in compliance with law

During the Reporting Period, the Company continued to perfect its various management systems, and the Company's decision-making processes were in compliance with law. The convening procedures, the motions and the voting procedures of the Company's shareholders' general meetings and board meetings all complied with the laws and regulations and the requirements of the articles of association of the Company. The directors and senior management were diligent and responsible, and conscientiously implemented the resolutions of the shareholders' general meetings and board meetings, and have not acted in violation of the laws, regulations or articles of association of the Company or prejudiced the Company's interests during the execution of their duties in the Company.

- (2) Examination of the Company's financial situation

Ruihua Certified Public Accountants has audited the Company's financial statement for the year 2017 and issued an auditor's report with standard unqualified opinion. The Supervisory Committee is of the view that the opinion expressed in the auditor's report was fair and objective and the current financial statement has truthfully reflected the state of financial condition and operating results of the Company.

- (3) During the Reporting Period, the Company had not made any investments which were funded by capital raising activities.
- (4) During the Reporting Period, the Company disposed of its assets at reasonable price and no inside dealings have been discovered which prejudice the interests of its shareholders or result in loss in the Company's assets.

Report of the Supervisory Committee

- (5) During the Reporting Period, the connected transactions which the Company entered into with connected parties were fair and reasonable and the prices were fairly determined without prejudicing the interests of any non-connected shareholders and the Company.
- (6) Opinion of the Company's Supervisory Committee on the Company's internal control assessment report

After reviewing the Company's 2017 Internal Control Assessment Report, the Company's Supervisory Committee is of the view that:

With reference to the relevant requirements of the Basic Norms for Enterprise Internal Control and the Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board, the Company's existing internal control systems are basically sound and cover all levels and segments of the Company's operation, are in compliance with the requirements of the relevant laws and regulations, and suit the actual needs of the Company's operating activities. Each of the internal control systems is able to exert relatively effective control of the different segments in the Company's operation, and is capable of preventing, timely discovering and rectifying possible errors in the Company's operation process, controlling the relevant risks, protecting the safety and completeness of the Company's assets, ensuring the truthfulness, accuracy and timeliness of the accounting records and accounting information. The Company's 2017 Internal Control Assessment Report has fully, objectively and truly reflected the actual internal control situation of the Company, and we agree to the issue of the 2017 Internal Control Assessment Report by the board of directors of the Company.

Corporate Information

REGISTERED OFFICE IN CHINA

No. 8 Ronggang Road, Ronggui, Shunde,
Foshan, Guangdong Province,
The People's Republic of China.

PLACE OF BUSINESS IN HONG KONG

Room 3101-3105, Singga Commercial Centre, No 148
Connaught Road West, Hong Kong

SECRETARY FOR THE BOARD OF DIRECTORS & COMPANY SECRETARY

Secretary of the Board: Huang Qian Mei
Company Secretary: Wong Tak Fong

AUTHORIZED REPRESENTATIVES

Tang Ye Guo
Jia Shao Qian

INVESTOR COMMUNICATION CENTRE

Computershare Hong Kong Investor Services Limited
17Mth Floor, Hopewell Center,
183 Queen's Road East, Wanchai, Hong Kong.

TELEPHONE

(852) 2593 5622
(86-757) 2836 2570

FAX

(852) 2802 8085
(86-757) 2836 1055

EMAIL ADDRESS

kelonsec@hisense.com

INTERNET WEBSITE

<http://www.kelon.com>

AUDITORS

Ruihua Certified Public Accountants
5-11/F, West Tower, China Overseas Property Plaza
Building 7, No.8 Xibinhe Road, Yongding Men,
Dongcheng District Beijing



通訊地址：北京市東城區永定門西濱河路8號院7號樓中海地產廣場西塔5-11層
Postal Address: 5-11/F, West Tower of China Overseas Property Plaza, Building 7,
NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing
郵政編碼(Post Code): 100077
電話(Tel): +86 (10) 88095588
傳真(Fax): +86 (10) 88091199

Rui Hua Shen Zi [2018] 95010001

To the shareholders of Hisense Kelon Electrical Holdings Company Limited:

I. AUDIT OPINION

We have audited the financial statements of Hisense Kelon Electrical Holdings Company Limited (the “Company” or “Hisense Kelon”), which comprise the consolidated and the Company’s balance sheets as at 31 December 2017, and the Company’s and consolidated income statements, the Company’s and consolidated cash flow statements and the Company’s and consolidated statements of changes in equity for 2017 and the notes to the financial statements.

In our opinion, the accompanying financial statements of Hisense Kelon present fairly, in all material aspects, Hisense Kelon’s and consolidated financial position as at 31 December 2017 and its and consolidated results of operations and cash flows for the year 2017 in accordance with the Accounting Standards for Business Enterprises.

II. BASIS OF AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Hisense Kelon in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are as follows.

(i) Provision for impairment of intangible assets with an indefinite useful life

1. Description

As stated in note 4(20) “Impairment of long-term assets”, intangible assets with an indefinite useful life will be tested for impairment annually, regardless of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment is made and an impairment loss are recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The intangible assets with an indefinite useful life of Hisense Kelon are trademarks. As at 31 December 2017, the balance of trademarks was RMB524,409,198.95. After deducting the accumulated amortization of RMB134,130,255.55 in accordance with the original standards and the provision for impairment made of RMB286,061,116.40, their carrying amount was RMB104,217,827.00. The sufficiency of provision for impairment of trademarks has a material impact on the financial statements.

Auditor's Report

Hisense Kelon determines the recoverable amount of trademarks based on the valuation under the income approach. Management was required to make significant judgements in estimating the future cash inflows and determining the relevant valuation parameters when carrying out the valuation under the income approach.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for impairment of intangible assets with an indefinite useful life as a key audit matter.

2. Audit response

Our main audit procedures for impairment of intangible assets with an indefinite useful life are as follows:

- (1) discussed with the valuation expert appointed by the management about the valuation method adopted, the estimation of future cash inflows and the determination of the relevant valuation parameters;
- (2) by comparing historical cash flows, we reviewed the management's judgment on the future development trend, and evaluated the future cash flows estimated by the management;
- (3) reviewed the value of goodwill in the valuation under the income approach by valuation experts;
- (4) reviewed the calculation of the provision for impairment of intangible assets with an indefinite useful life and the related accounting treatment.

(ii) Provision for declines in value of finished goods

1. Description

As stated in note 4(11) "Inventories", the finished goods of Hisense Kelon are measured at the lower of cost and net realizable value. As at 31 December 2017, the balance of finished goods was RMB2,611,182,335.06; the provision for declines in value of finished goods was RMB40,172,592.73; and the carrying amount of finished goods was RMB2,571,009,742.33. The sufficiency of provision for declines in value of finished goods has a material impact on the financial statements.

Hisense Kelon determines the net realisable value of finished goods based on the estimated selling price of finished goods less the estimated sales expenses and related taxes.

The management estimates the expected selling price of finished goods based on their conditions, and the management is required to make significant judgments in the estimation process.

In view of the large amount involved in the matter and the need for management to make significant judgments, we treat the provision for declines in value of finished goods as a key audit matter.

Auditor's Report

2. *Audit response*

Our main audit procedures for provision for declines in value of finished goods are as follows:

- (1) evaluated and tested key internal controls relating to the provision for declines in value of finished goods;
- (2) carried out stock counting procedures for the finished goods of Hisense Kelon, checked the quantity and condition of finished goods;
- (3) obtained the calculation table of provision for declines in value of finished goods of Hisense Kelon, selected certain product models on a sampling basis and compared their records and ageing in the table against the results of our stock counting;
- (4) by comparing historical selling prices of similar products and reviewing the trend in future selling prices of products based on seasonal and cyclical characteristics, we assessed the selling prices estimated by the management and checked the same against the actual selling prices subsequent to the balance sheet date;
- (5) by comparing historical selling expenses and relevant taxation and fees of similar products, we assessed the selling expenses and relevant taxation and fees estimated by the management and checked the same against the actual amount incurred subsequent to the balance sheet date;
- (6) selected certain finished goods and re-calculated their recoverable amount and the balance of provision for declines in value of finished goods as at the end of the period.

IV. OTHER INFORMATION

The management (the "Management") of Hisense Kelon is responsible for the other information. The other information comprises the information included in the 2017 annual report of Hisense Kelon, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Auditor's Report

V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Hisense Kelon's ability to continue as a going concern, disclosing matters (if applicable) in relation to the going concern, and using the going concern basis of accounting unless the management either intend to liquidate Hisense Kelon or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Hisense Kelon's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Hisense Kelon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hisense Kelon to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Report

- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Hisense Kelon to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ruihua Certified Public Accountants (LLP)

Beijing, the People's Republic of China

29 March 2018

Chinese Certified Public Accountant: **Wang Xi Xian**

Chinese Certified Public Accountant: **Zhang Hong Tao**

Consolidated Balance Sheets

31 December 2017

Prepared by: Hisense Kelon Electrical Holdings Company Limited

Unit: RMB

Item	<i>Notes to the Financial Statement</i>	Closing Balance	Opening Balance
Current assets:			
Cash at bank and on hand	6.1	2,996,028,194.89	2,227,421,330.74
Balances with clearing companies			
Lending capital			
Financial assets at fair value through profit or loss	6.2	82,670.52	9,695,070.04
Derivative financial assets			
Notes receivable	6.3	3,517,031,644.77	3,281,453,069.10
Accounts receivable	6.4	2,833,227,741.68	2,725,129,183.33
Prepayments	6.5	239,594,948.71	174,049,069.34
Insurance premium receivable			
Receivables from reinsurers			
Reserves for reinsurance contract receivable			
Interests receivable		151,200.00	
Dividends receivable			
Other receivables	6.6	312,311,091.68	245,420,469.20
Financial assets purchased under agreements to resell			
Inventories	6.7	3,397,860,489.07	2,660,044,996.38
Assets held for sale			
Non-current assets due within one year			
Other current assets	6.8	1,551,317,129.32	1,678,765,851.25
Total current assets		14,847,605,110.64	13,001,979,039.38
Non-current assets:			
Disbursement of loans and advances			
Available-for-sale financial assets	6.9	3,900,000.00	3,900,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	6.10	2,372,045,624.57	1,627,383,596.00
Investment properties	6.11	24,997,438.39	26,456,837.73
Fixed assets	6.12	3,251,808,744.32	3,481,725,652.28
Construction in progress	6.13	148,361,940.80	72,942,458.27
Construction materials			
Disposal of fixed assets		480,289.23	907,836.24
Productive biological assets			
Oil and gas assets			
Intangible assets	6.14	716,335,386.22	737,341,935.68
Development costs			
Goodwill			
Long-term prepaid expenses	6.15	3,727,675.38	5,158,532.22
Deferred tax assets	6.16	104,404,613.17	97,262,720.52
Other non-current assets			
Total non-current assets		6,626,061,712.08	6,053,079,568.94
Total assets		21,473,666,822.72	19,055,058,608.32

Consolidated Balance Sheets

31 December 2017

Item	<i>Notes to the Financial Statement</i>	Closing Balance	Opening Balance
Current liabilities:			
Short-term borrowings			
Borrowings from central bank			
Receipt of deposits and deposits from other banks			
Loans from other banks			
Financial liabilities at fair value through profit or loss	6.17	373,723.35	
Derivative financial liabilities			
Notes payable	6.18	6,141,025,710.22	5,227,854,741.07
Accounts payable	6.19	4,238,836,841.44	4,367,268,398.09
Advances from customers	6.20	791,262,245.11	831,778,792.45
Proceeds from disposal of financial assets under agreements to repurchase			
Handling fees and commission payable			
Employee remunerations payable	6.21	323,419,615.39	334,204,436.58
Taxes payable	6.22	265,563,541.86	222,919,921.87
Interests payable			
Dividends payable			
Other payables	6.23	1,709,226,096.76	1,661,704,359.95
Reinsured accounts payable			
Reserves for reinsurance contract			
Customer brokerage deposits			
Securities underwriting brokerage deposits			
Liabilities held for sale			
Non-current liabilities due within one year			
Other current liabilities	6.24	639,347,580.40	715,840,695.57
Total current liabilities		14,109,055,354.53	13,361,571,345.58

Consolidated Balance Sheets

31 December 2017

Item	<i>Notes to the Financial Statement</i>	Closing Balance	Opening Balance
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual debts			
Long-term payables			
Long-term employee remunerations payable			
Specific payables			
Provisions	6.25	337,091,145.64	314,632,715.41
Deferred income	6.27	73,013,121.41	54,687,498.01
Deferred tax liabilities	6.16	1,137,179.22	706,994.87
Other non-current liabilities			
Total non-current liabilities		411,241,446.27	370,027,208.29
Total liabilities		14,520,296,800.80	13,731,598,553.87
Shareholders' equity:			
Share capital	6.28	1,362,725,370.00	1,362,725,370.00
Other equity instruments			
Including: Preference shares			
Perpetual debts			
Capital reserve	6.29	2,088,891,556.36	2,092,861,943.89
Less: treasury shares			
Other comprehensive income	6.30	7,370,127.86	14,274,706.17
Special reserves			
Surplus reserves	6.31	460,339,686.31	313,689,564.15
General risk provisions			
Undistributed profit	6.32	2,525,976,933.34	1,083,914,592.96
Total equity attributable to shareholders of the parent		6,445,303,673.87	4,867,466,177.17
Minority interests		508,066,348.05	455,993,877.28
Total shareholders' equity		6,953,370,021.92	5,323,460,054.45
Total liabilities and shareholders' equity		21,473,666,822.72	19,055,058,608.32

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Balance Sheets of Parent Company

Unit: RMB

Item	Closing Balance	Opening Balance
Current assets:		
Cash at bank and on hand	42,091,702.34	91,532,499.69
Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable		
Accounts receivable	9,632,170.78	69,467,051.91
Prepayment	24,180,185.94	19,592,920.34
Interests receivable		
Dividends receivable		
Other receivables	1,235,500,456.32	1,286,513,407.88
Inventories	66,179.44	54,658.30
Assets held for sale		
Non-current assets due within one year		
Other current assets	811,863,956.36	16,197,007.75
Total current assets	2,123,334,651.18	1,483,357,545.87
Non-current assets:		
Available-for-sale financial assets	3,900,000.00	3,900,000.00
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	4,824,775,461.60	4,144,545,909.49
Investment properties	8,297,036.00	9,681,297.00
Fixed assets	30,816,121.41	43,579,821.24
Construction in progress		
Construction materials		
Disposal of fixed assets		
Productive biological assets		
Oil and gas assets		
Intangible assets	183,205,022.00	189,597,968.00
Development costs		
Goodwill		
Long-term prepaid expenses		326,444.49
Deferred tax assets		
Other non-current assets		
Total non-current assets	5,050,993,641.01	4,391,631,440.22
Total assets	7,174,328,292.19	5,874,988,986.09

Balance Sheets of Parent Company

Item	Closing Balance	Opening Balance
Current liabilities:		
Short-term borrowings		
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Notes payable		
Accounts payable	281,776,799.72	253,322,052.24
Advances from customers	8,915,630.84	24,460,718.63
Employee remunerations payable	2,512,848.08	3,843,432.68
Taxes payable	11,049,746.83	5,612,536.84
Interests payable		
Dividends payable		
Other payables	693,422,000.94	474,050,346.52
Liabilities held for sale		
Non-current liabilities due within one year		
Other current liabilities	21,322,070.67	17,349,989.49
Total Current Liabilities	1,018,999,097.08	778,639,076.40
Non-Current Liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		
Perpetual debts		
Long-term payables		
Long-term employee remunerations payable		
Specific payables		
Provisions	155,053,623.08	148,784,803.02
Deferred income	28,995,438.83	30,000,701.63
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	184,049,061.91	178,785,504.65
Total liabilities	1,203,048,158.99	957,424,581.05
Shareholders' equity:		
Share capital	1,362,725,370.00	1,362,725,370.00
Other equity instruments		
Including: Preference shares		
Perpetual debts		
Capital reserve	2,273,807,969.86	2,277,775,852.34
Less: Treasury shares		
Other comprehensive income		
Special reserves		
Surplus reserves	429,731,061.32	283,080,939.16
Undistributed profit	1,905,015,732.02	993,982,243.54
Total shareholders' equity	5,971,280,133.20	4,917,564,405.04
Total liabilities and shareholders' equity	7,174,328,292.19	5,874,988,986.09

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Consolidated Income Statement

				<i>Unit: RMB</i>
Item	<i>Notes to the Financial Statements</i>	Amount for Current period	Amount for Previous period	
I. Total operating revenue	6.33	33,487,590,387.45	26,730,219,497.07	
Including: Operating revenue		33,487,590,387.45	26,730,219,497.07	
Interest income				
Insurance premium earned				
Income from handling fees and commission				
II. Total operating costs	6.33	33,159,445,480.99	26,206,506,245.86	
Including: Operating costs		26,969,830,953.33	20,486,653,055.35	
Interest expenses				
Handling fees and commission expenses				
Refunded premiums				
Net amount of compensation payout				
Net amount of insurance contract reserves provided				
Policyholder dividend expenses				
Reinsurance premium expenses				
Taxes and surcharges	6.34	325,301,170.51	222,794,528.65	
Selling and distribution expenses	6.35	4,771,756,662.02	4,640,737,321.53	
General and administrative expenses	6.36	1,044,734,733.11	946,745,876.45	
Financial expenses	6.37	9,777,593.76	-85,989,063.41	
Impairment losses on assets	6.38	38,044,368.26	-4,435,472.71	
Add: Gain from changes in fair value (Loss denoted by “-”)	6.39	-9,986,122.87	19,462,802.79	
Investment income (Loss denoted by “-”)	6.40	1,562,397,646.46	522,079,140.57	
Including: Share of profit of associates and jointly controlled entities		735,944,911.05	534,444,157.61	
Foreign exchange gains (Loss denoted by “-”)				
Gains on disposal of assets (Loss denoted by “-”)	6.41	4,136,179.65	12,711,655.36	
Other income	6.42	125,483,420.20		
III. Operating profits (loss denoted by “-”)		2,010,176,029.90	1,077,966,849.93	
Add: Non-operating income	6.43	237,692,697.13	228,586,888.96	
Including: Gain on scrapping of non-current assets		2,077,154.44	1,436,140.66	
Less: Non-operating expenses	6.44	15,577,352.42	36,212,267.67	
Including: Loss on scrapping of non-current assets		8,330,147.77	2,378,109.79	
IV. Total profit (total loss denoted by “-”)		2,232,291,374.61	1,270,341,471.22	
Less: Income tax expenses	6.45	181,067,121.45	128,747,697.52	
V. Net profits (net loss denoted by “-”)		2,051,224,253.16	1,141,593,773.70	
(I) Classified on a going concern basis				
1. Net profit from continuing operations (net loss denoted by “-”)		2,051,224,253.16	1,141,593,773.70	
2. Net profit from discontinued operations (net loss denoted by “-”)				
(II) Classified by ownership of equity				
1. Profit and loss of minority interests (net loss denoted by “-”)		53,694,179.62	53,861,643.32	
2. Net profit attributable to shareholders of the parent (net loss denoted by “-”)		1,997,530,073.54	1,087,732,130.38	

Consolidated Income Statement

Item	<i>Notes to the Financial Statements</i>	Amount for Current period	Amount for Previous period
VI. Other comprehensive income after tax, net		-6,705,531.28	2,792,441.12
Other comprehensive income after tax attributable to owners of the parent, net		-6,904,578.31	2,792,441.12
(1) Items not to be reclassified into profit or loss in subsequent periods			
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan			
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method			
(2) Items to be reclassified into profit or loss in subsequent periods		-6,904,578.31	2,792,441.12
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods			-24,823.98
2. Gains or losses from changes in fair value of available-for-sale financial assets			
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets			
4. The effective portion of gains or losses from cash flow hedges			
5. Differences on translation of foreign currency financial statements		-6,904,578.31	2,817,265.10
6. Others			
Other comprehensive income after tax attributable to minority interests, net		199,047.03	
VII. Total comprehensive income		2,044,518,721.88	1,144,386,214.82
Total comprehensive income attributable to shareholders of the parent		1,990,625,495.23	1,090,524,571.50
Total comprehensive income attributable to minority interests		53,893,226.65	53,861,643.32
VIII. Earnings per share:			
(1) Basic earnings per share	6.46	1.47	0.80
(2) Diluted earnings per share		1.47	0.80

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Income Statement of Parent Company

Unit: RMB

Item	Amount for Current period	Amount for Previous period
I. Total operating revenue	78,595,047.97	66,468,579.35
Less: Operating costs	70,301,723.54	54,611,793.32
Taxes and surcharges	12,011,278.68	4,361,956.33
Selling and distribution expenses	40,095,768.22	-141,473,969.78
General and administrative expenses	24,311,207.98	29,984,537.50
Financial expenses	29,663,792.40	-33,113,088.93
Impairment losses on assets	-3,647,307.68	312,088.85
Add: Gain from changes in fair value (Loss denoted by “-”)		
Investment income (Loss denoted by “-”)	1,475,347,678.70	602,517,281.42
Including: Share of profit of associates and jointly controlled entities	736,915,152.53	534,444,157.61
Gains on disposal of assets (Loss denoted by “-”)		
Other income	1,005,262.80	
II. Operating profits (loss denoted by “-”)	1,382,211,526.33	754,302,543.48
Add: Non-operating income	87,329,470.71	1,165,719.26
Including: Gain on scrapping of non-current assets	15.00	548.62
Less: Non-operating expenses	3,039,775.40	24,795,756.11
Including: Loss on scrapping of non-current assets	2,155.33	31,428.83
III. Total profit (total loss denoted by “-”)	1,466,501,221.64	730,672,506.63
Less: Income tax expenses		
IV. Net profits (net loss denoted by “-”)	1,466,501,221.64	730,672,506.63
(1) Net profit from continuing operations (net loss denoted by “-”)	1,466,501,221.64	730,672,506.63
(2) Net profit from discontinued operations (net loss denoted by “-”)		
V. Other comprehensive income after tax, net		-24,823.98
(1) Items not to be reclassified into profit or loss in subsequent periods		
1. Changes arising from remeasurement of net liabilities or assets of defined benefit plan		
2. Share of other comprehensive income of the investee not to be reclassified into profit or loss under the equity method		
(2) Items to be reclassified into profit or loss in subsequent periods		-24,823.98
1. Share of other comprehensive income of the investee to be reclassified into profit or loss under the equity method in subsequent periods		-24,823.98
2. Gains or losses from changes in fair value of available-for-sale financial assets		
3. Gains or losses on reclassification of held-to-maturity investments as available-for-sale financial assets		
4. The effective portion of gains or losses from cash flow hedges		
5. Differences on translation of foreign currency financial statements		
6. Others		
VI. Total comprehensive income	1,466,501,221.64	730,647,682.65
VII. Earnings per share:		
(1) Basic earnings per share		
(2) Diluted earnings per share		

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Consolidated Cash Flow Statement

Unit: RMB

Item	Amount for Current period	Amount for Previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	24,042,927,835.44	21,309,745,838.99
Net increase in customer deposits and interbank deposits		
Net increase in borrowings from central bank		
Net increase in placements from other financial institutions		
Cash received from original insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits and investments from policyholders		
Net increase from disposal of financial assets at fair value through profit or loss		
Cash received from interests, fees and commissions		
Net increase in placements from banks and other financial institutions		
Net increase in repurchase business capital		
Tax rebates received	1,235,372,350.75	899,489,867.81
Other cash received concerning operating activities	595,046,376.49	653,783,268.12
Subtotal of cash inflows from operating activities	25,873,346,562.68	22,863,018,974.92
Cash paid for purchases of commodities and receipt of services	16,796,069,906.09	12,296,084,108.54
Net increase in loans and advances to customers		
Net increase in deposits with central bank and other banks		
Cash paid for compensation under original insurance contract		
Cash paid for interests, fees and commissions		
Cash paid for policyholders' dividend		
Cash paid to and for employees	2,865,603,481.83	2,583,930,351.26
Cash paid for taxes and surcharges	1,296,001,487.92	1,074,901,831.90
Cash paid for other operating activities	4,460,623,110.53	3,982,172,697.97
Subtotal of cash outflows from operating activities	25,418,297,986.37	19,937,088,989.67
Net cash flows from operating activities	455,048,576.31	2,925,929,985.25
II. Cash flows from investing activities:		
Cash received from recovery of investments	229,565,000.00	160,230,000.00
Cash received from investment income	39,155,196.48	18,059,845.19
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	12,272,558.16	3,348,405.37
Net cash received from disposals of subsidiaries and other operation units	862,552,036.96	
Cash received relating to other investing activities	3,930,000,000.00	1,977,330,804.98
Subtotal of cash inflows from investing activities	5,073,544,791.60	2,158,969,055.54
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	390,213,973.07	294,984,997.99
Cash paid for investments	242,250,000.00	
Net increase in pledge loans		
Cash paid for acquiring subsidiaries and other operation units		
Cash paid relating to other investing activities	3,710,000,000.00	3,061,000,000.00
Subtotal of cash outflows from investing activities	4,342,463,973.07	3,355,984,997.99
Net cash flows from investing activities	731,080,818.53	-1,197,015,942.45

Consolidated Cash Flow Statement

Item	Amount for Current period	Amount for Previous period
III. Cash flows from financing activities:		
Cash received from capital contribution	13,791,204.00	1,500,000.00
Including: Cash contribution to subsidiaries from minority shareholders' investment	13,791,204.00	1,500,000.00
Cash received from borrowings		694,598,227.11
Cash received from issuance of bonds		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities	13,791,204.00	696,098,227.11
Cash paid for repayment of borrowings		920,079,749.98
Cash paid for distribution of dividends, profit or payment of interest expenses	424,432,075.93	235,165,259.47
Including: Dividend and profit paid to minority shareholders by subsidiaries	15,614,464.93	22,801,168.20
Cash paid relating to other financing activities	609,526,216.71	1,490,145,133.66
Subtotal of cash outflows from financing activities	1,033,958,292.64	2,645,390,143.11
Net cash flows from financing activities	-1,020,167,088.64	-1,949,291,916.00
IV. Effects of foreign exchange rate changes on cash and cash equivalents	-8,628,229.42	3,203,620.91
V. Net increase in cash and cash equivalents	157,334,076.78	-217,174,252.29
Add: Balance of cash and cash equivalents at the beginning of the period	794,984,893.88	1,012,159,146.17
VI. Balance of cash and cash equivalents at the end of the period	952,318,970.66	794,984,893.88

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Cash Flow Statement of Parent Company

<i>Unit: RMB</i>		
Item	Amount for Current period	Amount for Previous period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	51,848,980.30	158,640,777.04
Tax rebates received		29,135,408.48
Cash received concerning other operating activities	854,418,357.21	1,065,356,745.31
Subtotal of cash inflows from operating activities	906,267,337.51	1,253,132,930.83
Cash paid for purchases of commodities and receipt of labor services	10,123,333.73	125,132,590.18
Cash paid to and for employees	59,813,014.91	22,832,257.34
Cash paid for taxes and surcharges	7,307,162.77	6,495,557.65
Cash paid for other operating activities	666,038,934.56	1,006,344,229.37
Subtotal of cash outflow from operating activities	743,282,445.97	1,160,804,634.54
Net cash flows from operating activities	162,984,891.54	92,328,296.29
II. Cash flow from investing activities:		
Cash received from recovery of investments	229,565,000.00	160,230,000.00
Cash received from investment income	144,431,278.11	51,314,404.03
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	15.00	7,150.00
Net cash received from disposals of subsidiaries and other operation units	862,560,000.00	
Cash received relating to other investing activities		100,000,000.00
Subtotal of cash inflows from investing activities	1,236,556,293.11	311,551,554.03
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	164,371.00	49,115.00
Cash paid for investments	240,000,000.00	69,020,000.00
Net cash paid for acquisition of subsidiaries and other operation units		
Cash paid relating to other investing activities	800,000,000.00	100,000,000.00
Subtotal of cash outflows from investing activities	1,040,164,371.00	169,069,115.00
Net cash flows from investing activities	196,391,922.11	142,482,439.03
III. Cash flows from financing activities:		
Cash received from capital contribution		
Cash received from borrowings		
Cash received from issuance of bonds		
Cash received relating to other financing activities		
Subtotal of cash inflows from financing activities		
Cash paid for repayment of borrowings		
Cash paid for distribution of dividends, profit or payment of interest expenses	408,817,611.00	204,408,805.50
Cash paid relating to other financing activities		
Subtotal of cash outflows from financing activities	408,817,611.00	204,408,805.50
Net cash flows from financing activities	-408,817,611.00	-204,408,805.50
IV. Effects of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents		
Add: Balance of cash and cash equivalents at the beginning of the period	91,482,499.69	61,080,569.87
VI. Balance of cash and cash equivalents at the end of the period		
	42,041,702.34	91,482,499.69

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Consolidated Statement of Changes in Owners' Equity

Amount for current period

Unit: RMB

Item	Current period											Total owners' equity	
	Attributable to the owners of the parent										Minority interests		
	Share capital	Preference shares	Other equity instruments		Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions		Undistributed profits	
I. Closing balance of previous year	1,362,725,370.00				2,092,861,943.89		14,274,706.17		313,689,564.15		1,083,914,592.96	455,993,877.28	5,323,460,054.45
Add: Changes in accounting policies													
Correction for error in previous period													
Business combination involving entities under common control													
Other													
II. Opening balance for the year	1,362,725,370.00				2,092,861,943.89		14,274,706.17		313,689,564.15		1,083,914,592.96	455,993,877.28	5,323,460,054.45
III. Movements in the current period													
(Decreases denoted in "-")					-3,970,387.53		-6,904,578.31		146,650,122.16		1,442,062,340.38	52,072,470.77	1,629,909,967.47
(1) Total comprehensive income							-6,904,578.31				1,997,530,073.54	53,893,226.65	2,044,518,721.88
(2) Owners' contributions and capital reductions					-2,505.05							13,793,709.05	13,791,204.00
1. Ordinary shares contributed by owners												13,791,204.00	13,791,204.00
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity													
4. Other					-2,505.05							2,505.05	
(3) Profit Distribution									146,650,122.16		-555,467,733.16	-15,614,464.93	-424,432,075.93
1. Appropriations to surplus reserve									146,650,122.16		-146,650,122.16		
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-408,817,611.00	-15,614,464.93	-424,432,075.93
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Other													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other					-3,967,882.48								-3,967,882.48
IV. Closing balance for the period	1,362,725,370.00				2,088,891,556.36		7,370,127.86		460,339,686.31		2,525,976,933.34	508,066,348.05	6,953,370,021.92

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Consolidated Statement of Changes in Owners' Equity

Amount for previous period

Unit: RMB

Item	Previous period										Total owners' equity		
	Attributable to the owners of the parent												
	Share capital	Preference shares	Other equity instruments		Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Minority interests	
I. Closing balance for previous year	1,362,725,370.00				2,155,529,231.17		11,482,265.05		240,622,313.49		273,658,518.74	429,791,658.88	4,473,809,357.33
Add: Changes in accounting policies													
Correction for error in previous period													
Business combination involving entities under common control													
Other													
II. Opening balance for the year	1,362,725,370.00				2,155,529,231.17		11,482,265.05		240,622,313.49		273,658,518.74	429,791,658.88	4,473,809,357.33
III. Movements in the current period													
(Decreases denoted in "-")					-62,667,287.28		2,792,441.12		73,067,250.66		810,256,074.22	26,202,218.40	849,650,697.12
(1) Total comprehensive income							2,792,441.12				1,087,732,130.38	53,861,643.32	1,144,386,214.82
(2) Owners' contributions and capital reductions					-62,667,287.28							-4,852,712.72	-67,520,000.00
1. Ordinary shares contributed by owners												1,500,000.00	1,500,000.00
2. Capital contributions by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity													
4. Other					-62,667,287.28							-6,352,712.72	-69,020,000.00
(3) Profit Distribution									73,067,250.66		-277,476,056.16	-22,806,712.20	-227,215,517.70
1. Appropriations to surplus reserve									73,067,250.66		-73,067,250.66		
2. Appropriations to general risk provisions													
3. Distribution to owners (or shareholders)											-204,408,805.50	-22,806,712.20	-227,215,517.70
4. Other													
(4) Transfer of owners' equity													
1. Transfer to capital (or share capital) from capital reserve													
2. Transfer to capital (or share capital) from surplus reserve													
3. Surplus reserves for making up losses													
4. Other													
(5) Special reserves													
1. Provided during the period													
2. Used during the period													
(6) Other													
IV. Closing balance for the period	1,362,725,370.00				2,092,861,943.89		14,274,706.17		313,689,564.15		1,083,914,592.96	455,993,877.28	5,323,460,054.45

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Statement of Changes in Owners' Equity of the Parent Company

Amount for current period

Unit: RMB

Item	Share capital	Other equity instruments		Others	Capital reserve	Current period		Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts			Less: Treasury shares	Other comprehensive income				
I. Closing balance in previous year	1,362,725,370.00				2,277,775,852.34				283,080,939.16	993,982,243.54	4,917,564,405.04
Add: Changes in accounting policies											
Correction for error in previous period											
Other											
II. Opening balance for the year	1,362,725,370.00				2,277,775,852.34				283,080,939.16	993,982,243.54	4,917,564,405.04
III. Movements in the current period											
(Decreases denoted in "-")					-3,967,882.48				146,650,122.16	911,033,488.48	1,053,715,728.16
(1) Total comprehensive income										1,466,501,221.64	1,466,501,221.64
(2) Owners' contributions and capital reductions											
1. Ordinary shares contributed by owners											
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Other											
(3) Profit Distribution									146,650,122.16	-555,467,733.16	-408,817,611.00
1. Appropriations to surplus reserve									146,650,122.16	-146,650,122.16	
2. Distribution to owners (or shareholders)										-408,817,611.00	-408,817,611.00
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other					-3,967,882.48						-3,967,882.48
IV. Closing balance for the period	1,362,725,370.00				2,273,807,969.86				429,731,061.32	1,905,015,732.02	5,971,280,133.20

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Statement of Changes in Owners' Equity of the Parent Company

Amount for previous period

Unit: RMB

Item	Share capital	Other equity instruments		Others	Capital reserve	Previous period		Special reserves	Surplus reserves	Undistributed profits	Total owners' equity
		Preference shares	Perpetual debts			Less: Treasury shares	Other comprehensive income				
I. Closing balance in previous year	1,362,725,370.00				2,277,775,852.34		24,823.98		210,013,688.50	540,785,793.07	4,391,325,527.89
Add: Changes in accounting policies											
Correction for error in previous period											
Other											
II. Opening balance for the year	1,362,725,370.00				2,277,775,852.34		24,823.98		210,013,688.50	540,785,793.07	4,391,325,527.89
III. Movements in the current period											
(Decreases denoted in "-")							-24,823.98		73,067,250.66	453,196,450.47	526,238,877.15
(1) Total comprehensive income							-24,823.98			730,672,506.63	730,647,682.65
(2) Owners' contributions and capital reductions											
1. Ordinary shares contributed by owners											
2. Capital contributions by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Other											
(3) Profit Distribution									73,067,250.66	-277,476,056.16	-204,408,805.50
1. Appropriations to surplus reserve									73,067,250.66	-73,067,250.66	
2. Distribution to owners (or shareholders)										-204,408,805.50	-204,408,805.50
3. Other											
(4) Transfer of owners' equity											
1. Transfer to capital (or share capital) from capital reserve											
2. Transfer to capital (or share capital) from surplus reserve											
3. Surplus reserves for making up losses											
4. Other											
(5) Special reserves											
1. Provided during the period											
2. Used during the period											
(6) Other											
IV. Closing balance for the period	1,362,725,370.00				2,277,775,852.34				283,080,939.16	993,982,243.54	4,917,564,405.04

Legal representative: **Tang Ye Guo** Chief financial officer: **Gao Yu Ling** Accounting supervisor: **Liang Hong Tao**

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

1. COMPANY PROFILE

Hisense Kelon Electrical Holdings Company Limited (hereinafter referred to as the “Company”) , formerly known as Guangdong Shunde Pearl River factory (廣東順德珠江冰箱廠) was established in 1984 . After the restructuring into a joint stock limited company in December 1992, the Company was renamed as Guangdong Kelon Electrical Holdings Company Limited. The Company’s 459,589,808 overseas listed public shares (the “H Shares”) were listed on The Stock Exchange of Hong Kong Limited on 23 July 1996. In 1998, the Company obtained the approval to issue 110,000,000 domestic shares (the “A Shares”), which were listed on the Shenzhen Stock Exchange on 13 July 1999.

In October 2001 and March 2002, the former single largest shareholder of the Company, Guangdong Kelon (Ronshen) Group Company Limited (hereinafter referred to as “Ronshen Group”, which previously held 34.06% interest in the Company) entered into a share transfer agreement and a supplemental agreement with Shunde Greencool Enterprise Development Company Limited (which was renamed as “Guangdong Greencool Enterprises Development Company Limited in 2004, hereinafter referred to as “Guangdong Greencool”), in connection with the transfer of 20.64% of the total share capital of the Company to Guangdong Greencool by Ronshen Group. In April 2002, Ronshen Group transferred its shareholding of 6.92%, 0.71% and 5.79% of the total share capital of the Company to Shunde Economic Consultancy Company, Shunde Dong Heng Development Company Limited and Shunde Xin Hong Enterprise Company Limited, respectively. After the abovementioned share transfers, Ronshen Group, the former single largest shareholder of the Company, no longer held shares of the Company.

On 14 October 2004, 5.79% of the total share capital of the Company held by Shunde Xin Hong Enterprise Company was transferred to Guangdong Greencool. Upon completion of the share transfer, the percentage of total share capital of the Company held by Guangdong Greencool increased to 26.43%.

On 13 December 2006, 26.43% of the total share capital of the Company held by Guangdong Greencool Enterprises Development Company Limited was transferred to Qingdao Hisense Air-Conditioning Company Limited (“Qingdao Hisense Air-Conditioning”). Upon completion of the share transfer, Guangdong Greencool, the former single largest shareholder of the Company, no long held shares of the Company.

The Company’s share reform scheme was approved on the A shareholders’ meeting on 29 January 2007 and approved by the Ministry of Commerce of the PRC on 22 March 2007. The shareholding of Qingdao Hisense Air-Conditioning, the largest shareholder of the Company, was changed to 23.63% after the scheme. On 20 June 2007, the name of the Company was changed from “Guangdong Kelon Electrical Holdings Company Limited” to “Hisense Kelon Electrical Holdings Company Limited”.

Since 2008, Qingdao Hisense Air-Conditioning has successively increased the shareholding of the Company through secondary market. At the end of 2009, Qingdao Hisense Air-Conditioning held 25.22% of the total share capital of the Company.

In accordance with the resolutions of the fourth interim general meeting of the Company held on 31 August 2009, and as approved by China Securities Regulatory Commission with the “Letter of Reply Concerning the Approval for the Major Asset Restructuring of Hisense Kelon Electrical Holdings Company Limited and the Acquisition of Assets through Issuance of Shares to Qingdao Hisense Air-Conditioning Company Limited (Zheng Jian Xu Ke [2010] No. 329)”, and the “Letter of Reply Concerning the Approval for the Announcement by Qingdao Hisense Air-Conditioning Company Limited of the Acquisition Report of Hisense Kelon Electrical Holdings Company Limited and the Waiver of its General Offer Obligation (Zheng Jian Xu Ke [2010] No. 330)” dated 23 March 2010, the Company was permitted to issue 362,048,187 ordinary shares (A shares) in Renminbi to Qingdao Hisense Air-conditioning (as a specific party), to fund the acquisition of 100% equity interests in Hisense (Shandong) Air-Conditioner Co., Ltd., 51% equity interests in Hisense (Zhejiang) Air-Conditioner Co., Ltd., 49% equity interests in Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. (“Hisense Hitachi”), 55% equity interests in Hisense (Beijing) Electrical Co., Ltd., 78.70% equity interests in Qingdao Hisense Mould Co., Ltd. and the white goods marketing businesses and assets including refrigerators and airconditioners of Qingdao Hisense Marketing Co., Ltd. (“Hisense Marketing”).

In 2010, the connected transaction in relation to the acquisition of assets by way of share (A share) issue by the Company to a specific party was completed. On 10 June 2010, the Company issued 362,048,187 additional A shares to Qingdao Hisense Air-Conditioning under seasoned offering. On 30 June 2010, the registered capital of the Company changed from RMB992,006,563.00 to RMB1,354,054,750.00.

On 18 June 2013, 612,221,909 restricted A shares of the Company held by Qingdao Hisense Air Conditioning were no longer subject to selling moratorium and were listed for trading.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

1. COMPANY PROFILE *(continued)*

On 23 May 2014, upon the satisfaction of the conditions to the first exercise period of the First Share Option Incentive Scheme of the Company and after approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., an additional of 4,440,810 new shares issued upon the exercise of options were approved for listing.

On 19 June 2015, upon the satisfaction of the conditions to the second exercise period of the First Share Option Incentive Scheme of the Company and after approval by and registration with the Shenzhen branch of China Government Securities Depository Trust & Clearing Co. Ltd., an additional of 4,229,810 new shares issued upon the exercise of options were approved for listing.

As at 31 December 2017, the total number of shares of the Company was 1,362,725,370 and the registered share capital of the Company was RMB1,362,725,370.00; of which, the shareholding of the Company held by Qingdao Hisense Air-Conditioning was 37.92%.

Scope of operations of the Company:

The Company and its subsidiaries are principally engaged in development and manufacture of household appliances such as refrigerators and air-conditioners, domestic and overseas sales of product, provision of after-sale services and transportation of products.

Place of registration of the Company: No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province.

Address of headquarters: No. 8 Ronggang Road, Ronggui, Shunde, Foshan, Guangdong Province.

The financial statements were approved at the meeting held on 29 March 2018 by the Board of the Company.

In 2017, there were a total of 37 subsidiaries consolidated into the Company, details of which are set out in note 8 "Interests in other entities". The number of subsidiaries of the Company consolidated increased by 1 and decreased by 2 from last year, details of which are set out in note 7 "Change in scope of consolidation".

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared based on going-concern assumption and actual transactions and events according to the Accounting Standards for Business Enterprises – Basic Standard (the Ministry of Finance Order No. 33 Issue, the Ministry of Finance Order No. 76 Amendment) issued by the Ministry of Finance, and 42 specific accounting standards, application guidelines for Accounting Standards for Business Enterprises, explanation of Accounting Standards for Business Enterprises and other relevant regulations (hereinafter collectively referred to as "Accounting Standards For Business Enterprises") issued and revised on 15 February 2006 or later, and the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission.

According to the relevant provisions of Accounting Standards for Business Enterprises, the Company's financial accounting is conducted on accrual basis. Except for certain financial instruments, the financial statements take the historical cost as the accounting basis. If an asset is impaired, the provision for impairment shall be accrued in accordance with the relevant provisions.

As the Company is listed in both Mainland and Hong Kong stock exchange, save as the abovementioned relevant regulations, the financial statements shall also disclose such information as required by applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Company comply with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the financial state as at 31 December 2017 and the operating results, cash flows and other related information of the Company for the year 2017. In addition, the financial statements also comply with the disclosure requirements as contained in the Information Disclosure Regulations for Companies Publicly Issuing Securities No. 15 – General Provisions for Financial Statements (Revised 2014) issued by China Securities Regulatory Commission relating to financial statements and notes thereto in all material respects.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries are engaged in the production of household appliances. Based on actual production and management features, the Company and its subsidiaries formulated a number of specific accounting policies and accounting estimates for revenue recognition and other related transactions and matters in accordance with the relevant requirements of Accounting Standards for Business Enterprises. See this note 4(24) "Income" for details. For the explanation on significant accounting judgments and estimates made by the management, please refer to note 4(30) "Significant Accounting Judgments and Estimates".

(1) Accounting period

The Company's accounting periods are divided into annual and interim periods. An interim period refers to a reporting period less than a full accounting year. The Company adopts a calendar year, being the period from 1 January to 31 December of each year, as its financial year.

(2) Business cycle

A normal business cycle represents a period from purchase of assets used for production to realization of cash or cash equivalents by the Company. The Company adopts a 12-month period as its business cycle and the basis for liquidity classification between assets and liabilities.

(3) Reporting currency

Renminbi (RMB) is the currency in the primary economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries adopt RMB as their reporting currencies. The overseas subsidiaries of the Company adopt the Hong Kong dollar, Euro or Japanese Yen as their respective reporting currencies depending on the currency in the primary economic environment where they operate. RMB is the functional currency adopted by the Company in preparing these financial statements.

(4) Accounting treatment for business combinations involving entities under common and not under common control

A business combination refers to the transaction or matter in which one reporting subject formed due to the combination of two or above separate entities. A business combination can be classified as the combination under common control and not under common control.

1. *Business combination involving entities under common control*

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination under common control, the party that obtains the control of the other parties on the combination date is the acquirer, and other parties involving in the business combination are the acquirees. The combination date is the date on which the acquirer effectively obtains the control of the acquirees.

Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amount at the combination date as recorded by the acquirees. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid by the acquirer for the combination (or the aggregate par value of the issued shares) shall be adjusted to share premium under capital reserve (or capital premium). If the share premium under capital reserve (or capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Expenses that are directly attributable to the business combination by the acquirer are charged to the profit and loss for the period in which they are incurred.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(4) Accounting treatment for business combinations involving entities under common and not under common control *(continued)*

2. *Business combination involving entities not under common control*

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not under common control, the party that obtains the control of the other parties on the acquisition date is the acquirer; other parties involving in the business combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquirees.

For a business combination not under common control, the cost of business combination is the fair value of assets paid, liabilities incurred or undertaken, and equity securities issued by the acquirer for obtaining the control of the acquirees at the acquisition date. Expenses that are attributable to the business combination such as audit fees, legal services fees, consultancy fees and other administration expenses incurred by the Company as acquirer are expensed in the profit or loss for the period in which they are incurred. Transaction fees of equity securities or debt securities issued by the acquirer as consideration for a business combination are included in the initially recognised amount of equity securities or debt securities. Contingent consideration involved is recorded as the combination cost at its fair value on the acquisition date. Should any new or further evidence in relation to the circumstances existing on the acquisition date arise within 12 months after the acquisition date, making it necessary to adjust the contingent consideration, the goodwill arising from the business combination shall be adjusted accordingly. The cost of combination incurred and identifiable net assets obtained by the acquirer in a business combination are measured at fair value on the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised in profit or loss for the current year after a review of measurement for the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree and the combination cost.

In relation to the deductible temporary difference acquired from the acquiree, which was not recognised as deferred tax assets due to non-fulfillment of the recognition criteria at the date of the acquisition, if new or further information that is obtained within 12 months after the acquisition date indicates that related conditions at the acquisition date already existed, and that the realization of the economic benefits brought by the deductible temporary difference of the acquiree on the acquisition date can be expected, the relevant deferred tax assets shall be recognised and goodwill shall be deducted accordingly. When the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in the profit or loss for the period. Except for the above circumstances, deferred tax assets in relation to business combination are recognised in the profit or loss for the period.

For a business combination involving entities not under common control that is achieved in stages, the Company shall determine whether the business combination shall be treated as "a bundle of transactions" in accordance with the determination standards as contained in the "Circular on the Publishment of Interpretation 5 on Accounting Standards for Business Enterprises" issued by the Ministry of Finance (Cai Kuai [2012] No. 19) and Section 51 of "Accounting Standards for Business Enterprises 33 – Consolidated Financial Statements" (Refer to note 4(5)ii) "Preparation of consolidated financial statements". Where the business combination is treated as "a bundle of transactions", the business combination shall be accounted for in accordance with the previous paragraphs and note 4(12) "Long term equity investment"; where the business combination does not fall within "a bundle of transactions", the business combination in the Company's and the consolidated financial statements shall be accounted for as follows:

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(4) Accounting treatment for business combinations involving entities under common and not under common control *(continued)*

2. *Business combination involving entities not under common control (continued)*

In the Company's financial statements, the initial cost of the investment shall be the sum of the carrying amount of equity investment held in the acquiree prior to the acquisition date and the amount of additional investment made to the acquiree at the acquisition date. Other comprehensive income relating to the equity interest held in the acquiree prior to the acquisition date shall be, upon disposal of the investment, accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the acquirer's interest in the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of the acquiree that is accounted for in accordance with the equity method of accounting, the balance shall be transferred to investment income for the current year.

In the consolidated financial statements, the equity interest held in the acquiree prior to the acquisition date is re-measured according to its fair value at the acquisition date; the difference between the fair value and the carrying amount is recognised as investment income for the current period. Other comprehensive income relating to the equity interest held in the acquiree prior to the acquisition date shall be accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the acquirer's interest in the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of the acquiree that is accounted for in accordance with the equity method of accounting, the balance shall be transferred to investment income for the period within which the acquisition date falls.

(5) Preparation of consolidated financial statements

1. *Criteria for the recognition of scope of consolidated financial statements*

The scope of consolidation shall be determined based on the concept of control. Control refers to the power over the investee, share of or entitlement to the risk exposure or rights of reward of variable returns, and the ability to affect the amount of such returns by using its power over the investee. The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries, which are defined as those entities controlled by the Company.

Once any change in the facts and circumstances arises which leads to a change in the elements involved in the definition of control, the Company will conduct an assessment.

2. *Preparation of consolidated financial statements*

Subsidiaries are consolidated from the date on which the Company obtains their net assets and actual control over their operating decisions, and are deconsolidated from the date when such control ceases. For subsidiaries being disposed, the operating results and cash flows prior to the date of disposal are duly included in the consolidated income statement and consolidated cash flow statement; for subsidiaries disposed during the period, the opening balances of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination not under common control, their operating results and cash flows subsequent to the acquisition date are included in the consolidated income statement and consolidated cash flow statement, and the opening balances and comparative figures in the consolidated financial statements would not be restated. For subsidiaries acquired from a business combination under common control, their operating results and cash flows from the date of commencement of the period in which the combination occurred to the date of combination are included in the consolidated income statement and consolidated cash flow statement, and the comparative figures in the consolidated financial statements would be restated.

In preparing the consolidated financial statements, where the accounting policies or the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination not under common control, their financial statements are adjusted based on the fair value of the identifiable net assets at the acquisition date.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(5) Preparation of consolidated financial statements *(continued)*

2. Preparation of consolidated financial statements *(continued)*

All significant inter-group balances, transactions and unrealised profits are eliminated in preparing the consolidated financial statements.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Company are recognised as minority interests and profits and losses attributable to minority interests respectively, which are presented under shareholders' equity and net profit separately, in the consolidated financial statement. A subsidiary's net profit and loss for the period attributable to minority interests is recognised as share of profit or loss of minority interests under net profit in the consolidated income statement. When the amount of a subsidiary's loss attributable to the minority shareholders exceeds the minority shareholders' share of the opening balance of shareholders' equity of the subsidiary, the excess is deducted from the minority interests.

When the control over a subsidiary is lost due to disposal of a portion of equity investment or otherwise, the remaining equity interest is re-measured at the fair value on the date when the control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, and the net assets of the former subsidiary attributable to the Company since the acquisition date as calculated based on its original shareholding percentage in that subsidiary, is recognised as the investment income for the period when the loss of control occurred. Other comprehensive incomes in relation to the equity investment of the subsidiary shall be, upon the loss of control, accounted for in accordance with the same basis as that the acquiree adopts in directly disposing of relevant assets or liabilities, that is, except for the changes arising from remeasurement of net assets or liabilities relating to the defined benefit plan of that subsidiary, the balance shall be transferred to investment income for the current year. Subsequent measurement of the remaining equity interests shall be in accordance with relevant accounting standards such as "Accounting Standards for Business Enterprises 2 — Long-term Equity Investments" or "Accounting Standards for Business Enterprises 22 — Recognition and Measurement of Financial Instruments", which are detailed in note 4(12) "Long term equity investment" or note 4(9) "Financial instrument".

The Company shall determine whether a series of transactions in relation to disposal of equity investment in or even loss of control over a subsidiary in stages should be treated as a bundle of transactions. When the economic effects and terms and conditions of the transactions in relation to the disposal of equity investment met one or more of the following situations, the series of transactions shall normally be accounted for as a bundle of transactions: (i) these transactions are entered into simultaneously or after considering the mutual consequences of each individual transaction; (ii) these transactions need to be considered as a whole in order to achieve a deal in commercial sense; (iii) the occurrence of an individual transaction depends on the occurrence of one or more individual transaction(s) in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taking into account the other transactions in the series. When the transactions are not treated as a bundle of transactions, each of the individual transactions shall be accounted for as the "portion disposal of long term equity investment in a subsidiary which would not lead to loss of control" (detailed in note 4(12)ii(iv)) "Disposal of long-term equity investment" or the "loss of control due to portion disposal of equity investment in a subsidiary or otherwise" (detailed in the previous paragraph), as the case may be. When the transactions in relation to disposal of equity investment in or even loss of control over a subsidiary are treated as a bundle of transactions, each of the transactions shall be accounted for as one transaction in relation to disposal of the subsidiary leading to loss of control; however, the difference between the consideration received from the disposal and the share of net assets of the subsidiary disposed in each individual transaction before loss of control shall be recognised as other comprehensive income in the consolidated financial statements, and reclassified as profit or loss for the period when control is lost.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Classification of joint arrangements and accounting treatment for joint operations

A joint arrangement refers to an arrangement over which two or more parties have joint control. In accordance with the Company's rights and obligations under a joint arrangement, the Company classifies joint arrangements into joint operations and joint ventures. A joint operation refers to a joint arrangement under which the Company is entitled to the assets and assumes the obligations. A joint venture refers to a joint arrangement under which the Company is only entitled to net assets.

The investment in joint ventures is accounted for using the equity method in accordance with the accounting policies as set out in note 4(12)ii(ii) "Long-term equity investment by using equity method".

As a party to a joint operation, the Company recognise the assets held and obligations assumed solely by the Company, and the assets held and obligations assumed jointly by the Company in proportion to the share of the Company; recognise the revenue from sales of the share of outputs of the joint operation of the Company; recognise the share of revenue from sales of outputs by the joint operation of the Company; recognise the expenses solely incurred by Company; and recognise the expenses incurred by the joint operation in proportion to the share of the Company.

When the Company, as a party to a joint operation, invests in or disposes of an asset (not being a business, the same below) to or purchase an asset from the joint operation, the Company shall only recognise the portion of profit or loss arising from this transaction attributable to other parties to the joint operation before such disposal to any third party. Where an impairment loss of these assets that meets the requirements in "Accounting Standard for Business Enterprises 8 – Asset Impairment" arises, the Company shall recognise the loss in full in relation to the assets invested in or disposed of to the joint operation by the Company; and shall recognise the loss in proportion to the share of the Company in relation to the assets purchased from the joint operation by the Company.

(7) Criteria for the recognition of cash and cash equivalents

Cash and cash equivalents of the Company include cash on hand, deposits readily available for payment, and highly liquid investments with a short maturity of generally within three months when acquired that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(8) Foreign currency transactions and translation of financial statements in foreign currency

1. Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates prevailing at the dates of the transactions, i.e. the middle price of RMB exchange rate published by the People's Bank of China on that date in general and the same below, except when the Company carries on a business of currency exchange or involves in currency exchange transactions, at the actual exchange rates which would be used.

2. Translation of monetary items and non-monetary items in foreign currencies

At the balance sheet date, monetary items denominated in foreign currency are translated into the functional currency using the spot exchange rate prevailing at the balance sheet date. The resulting exchange differences are recognised in profit or loss for the current period, except for (i) those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets; (ii) exchange difference arising from changes in carrying amount of available for sale foreign-currency monetary items other than changes in amortized cost, which is recognised in other comprehensive income.

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange differences arising from changes in exchange rates in relation to translation of foreign currency monetary items which effectively constitute a net investment in the foreign operation, are recognized in other comprehensive income, or upon disposal of the foreign operation, in the profit or loss for the period.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(8) Foreign currency transactions and translation of financial statements in foreign currency *(continued)*

2. Translation of monetary items and non-monetary items in foreign currencies *(continued)*

Non-monetary items denominated in foreign currency that are measured at historical cost are translated into the functional currency using the spot rates prevailing at the dates of the transactions. Non-monetary items denominated in foreign currency that are measured at fair value are translated into the functional currency using the spot rate prevailing on the date when fair value is determined and the resulting exchange differences will be recognised as fair value change (including a change of exchange rate) in profit or loss for the period or as other comprehensive income.

3. Translation of financial statements in foreign currency

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange differences arising from changes in exchange rates in relation to translation of foreign currency monetary items which effectively constitute a net investment in the foreign operation, are recognised as “exchange difference on translation of financial statements in foreign currency” in other comprehensive income, or upon disposal of the foreign operation, in the profit or loss for the period.

The following displays the methods for translating financial statements in foreign currency of foreign operations into the statements in RMB: The asset and liability items in the balance sheets are translated at the spot exchange rates on the balance sheet date. Under the shareholders’ equity, the items other than “undistributed profits” are translated at the spot exchange rates at the transaction dates. The income and expense items in the income statements are translated at the average exchange rates at the transaction dates. Opening balance of undistributed profits is equal to the closing balance of undistributed profits after translation in the previous year; closing balance of undistributed profit is measured and presented based on the items in profit distribution after translation. The exchange difference arising from translation of the sum of assets, liabilities and equity items is recognised as the difference on translation of financial statements in foreign currency in other comprehensive income. Such exchange difference in relation to the foreign operation as shown under shareholders’ equity in the balance sheet is recognised in the profit or loss for the period in full or on a pro rata basis upon disposal of the foreign operation leading to a loss of control.

The cash flows in foreign currency and of overseas operations are translated at the spot exchange rates on the dates of the cash flows or the average exchange rates for the current period. The effect of exchange rate changes on cash is presented separately as an adjustment item in the cash flow statement.

The opening balance and the prior year’s figures are presented as the balances after translation of the financial statements in the previous year.

On disposal of the entire owners’ equity held in a foreign operation by the Company, or upon a loss of control over a foreign operation due to partial disposal of equity investment or other reasons, the exchange differences arising on translation of the financial statements in foreign currency in relation to that foreign operation, which are attributable to owners’ equity of parent company as shown under shareholders’ equity in the balance sheet, are recognised in the profit or loss in the period in which the disposal took place.

In case of partial disposal of equity investment or other reason resulting in reduction in shareholding in a foreign operation without losing control over it, the exchange differences arising from the translation of financial statements in foreign currency in relation to the assets disposed will be attributable to minority interests and will not be recognised in profit or loss for the period. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the exchange differences arising from the translation of financial statements in foreign currency of the foreign operation is reclassified to profit or loss for the period in which the disposal took place on a pro rata basis.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are measured at fair value upon initial recognition. For financial assets and financial liabilities measured at fair value through profit or loss, the transaction costs are directly recognised in profit or loss for the period. For financial assets and financial liabilities classified as other categories, the transaction costs are included in the amount initially recognised.

1. *Determination of fair value for financial assets and financial liabilities*

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. For financial instruments that have an active market, fair value is determined based on the quoted price in such market. The quoted price in an active market refers to the price that is easily and regularly obtained from exchanges, brokers, industrial organisations and price fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. Where financial instruments do not have an active market, the fair value is determined using valuation techniques. Valuation techniques include, among others, reference to the prices reached in recent market transactions entered into by both willing parties with an informed view, and reference to present fair values of other substantially identical financial instruments, cash flow discounting method and option pricing models.

2. *Classification, recognition and measurement of financial assets*

Any regular purchase and sale of financial assets shall be recognised and derecognised at the transaction date. Financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets upon initial recognition.

(i) Financial assets at fair value through profit or loss

They include financial assets held-for-trading and those designated as financial assets at fair value through profit or loss. Financial assets measured at fair value by the Company through profit or loss are financial assets held-for-trading.

A financial asset is classified as held for trading if one of the following conditions is satisfied: A. It has been acquired mainly for the purpose of sale or repurchase in the near term; or B. it is part of a portfolio of identifiable financial instruments that the Group manages together and there is objective evidence that the Company has adopted a short-term profit-taking pattern recently; or C. it is a derivative, except for a derivative that is designated as and is an effective hedging instrument, or that is a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial assets held-for-trading are measured subsequently at fair value. Gains or losses arising from changes in fair value and any dividend and interest income on such assets are recognized in the profit or loss for the current period.

(ii) Held-to-maturity investments

They are non-derivative financial assets that have fixed or determinable payments and fixed maturity and for which the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are measured subsequently at amortised cost by using the effective interest rate method. Gains or losses arising on derecognition, impairment or amortization are recognized in the profit or loss for the current period.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

2. Classification, recognition and measurement of financial assets *(continued)*

(ii) Held-to-maturity investments *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and the interest income or interest expense over respective periods, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the current carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates future cash flows taking into account all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset or financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

(iii) Loans and receivables

They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets, including notes receivable, trade receivable, interest receivable, dividends receivable and other receivables, are classified as loans and receivables by the Company.

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses arising on derecognition, impairment or amortisation are charged to profit or loss in the current period.

(iv) Available-for-sale financial assets

They include non-derivative financial assets that are designated as available for sale upon initial recognition and the financial assets other than those at fair value through profit or loss, loans and receivables and held-to-maturity investments.

The closing cost of available-for-sale debt instrument investments is recognised at amortised cost, i.e. the initially recognised amount less the principal repaid, and then plus or less the accumulated amortisation amount arising from the amortisation of the difference between the initially recognised amount and the amount at the maturity date using the effective interest rate method, and then further less the impairment loss already incurred. The closing cost of available-for-sale equity instrument investments is the cost on initial acquisition.

Available-for-sale financial assets are subsequently measured at fair value. Gain or loss arising from changes in fair value are recognised as other comprehensive income, except for impairment loss and exchange differences arising from translation of foreign currency monetary financial assets in relation to amortised cost which are accounted for through profit or loss for the current period. The financial assets will be transferred out on derecognition and accounted for through profit or loss for the current period. However, equity investment that is not quoted in an active market and the fair value of which cannot be measured reliably, and derivative financial assets that are linked to and must be settled by delivery of such equity instrument are subsequently measured at cost.

Interests received during the period in which available-for-sale financial assets are held and the cash dividends declared by the investee are recognised as investment income.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

3. *Impairment of financial assets (other than receivables)*

Except for financial assets at fair value through profit or loss for the current period, the Group assesses the carrying amount of other financial assets at each balance sheet date, and if there is objective evidence that the financial assets are impaired, provisions are made for the impairment.

(i) Impairment of held-to-maturity investments

The carrying amount of the financial assets measured at cost or amortised cost is written down to the present value of the estimated future cash flow and the written-down amount is recognised as the impairment loss in the profit or loss for the current period. The originally recognised impairment loss is reversed if there is objective evidence that the value of the financial assets has been recovered and the recovery can be linked objectively to an event occurring after the impairment loss was recognised. The carrying amount of the financial assets upon the reversal of the impairment loss will not exceed the amortised cost of the financial assets on the reversal date as if no impairment loss provision has been made.

(ii) Impairment of available-for-sale financial assets

In the event that decline in fair value of the available-for-sale equity instrument investment is regarded as severe or non-temporary decline on the basis of comprehensive related factors, it indicates that there is impairment loss of the available-for-sale equity instrument. In which, “severe decline” refers to accumulative decline in fair value which is more than 20%; and “non-temporary decline” refers to the fair value that decreased continuously for more than 12 months.

When the available-for-sale financial assets impair, the accumulated loss originally included in the other comprehensive income arising from the decrease in fair value will be transferred out and included in the profit or loss for the period. The accumulated loss that will be transferred out is the balance of the acquired initial cost of the assets, after deduction of the principal recovered and the amounts amortised, current fair value and the impairment loss originally included in the profit or loss.

The originally recognized impairment loss is reversed if there is objective evidence showing that the value of the financial assets has been recovered and the recovery can be linked objectively to an event occurring after the impairment loss of the financial assets was recognized. The impairment loss reversal of the available-for-sale equity instrument investment will be recognized as other comprehensive income, and the impairment loss reversal of the available-for-sale debt instrument will be included in the profit or loss for the period.

Equity instrument investment (that is not quoted in an active market and its fair value cannot be measured reliably) or the impairment loss of a derivative financial asset (which links to and must be settled by delivery of such equity instrument) will not be reversed.

4. *Basis for recognition and measurement of transfer of financial assets*

The financial asset will be de-recognised if any of the following conditions is satisfied: (1) The contractual right to receive the cash flow of the financial asset is terminated; (2) The financial asset has been transferred and substantially all of the risks and rewards of ownership of the financial asset have been transferred to the transferee; (3) The financial asset has been transferred and the entity has waived the control over the financial asset although it has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset.

Where the entity has neither transferred nor reserved substantially all of the risks and rewards of ownership of the financial asset and not waived the control over the financial asset, to the extent of its continuous involvement in the financial asset transferred, the entity recognises the relevant financial asset and meanwhile, recognises the relevant liability accordingly. The extent of the continuous involvement is the level of risk to which the entity exposes due to changes in the value of such financial asset.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

4. *Basis for recognition and measurement of transfer of financial assets (continued)*

Where the conditions of de-recognition are satisfied upon overall transfer of the financial asset, the difference between the carrying amount of the transferred financial asset and the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income is recognised in the profit or loss for the current period.

Where the conditions of de-recognition are satisfied upon partial transfer of the financial asset, the carrying amount of the transferred financial asset is allocated between the derecognised and non-derecognised portion at the corresponding fair value, and the difference between the sum of the consideration received from the transfer and the accumulated changes in fair value previously recognised in other comprehensive income to be allocated to the de-recognised portion and the above mentioned allocated carrying amount is recognised in the profit or loss for the current period.

Where the Company disposes of the financial asset with the right of recourse or transfers the financial asset by endorsement, it shall be ascertained that whether substantially all the risks and rewards of ownership of the financial asset have been transferred. Where substantially all the risks and rewards of ownership of the financial asset have been transferred to the transferee, the financial asset are de-recognised; where substantially all the risks and rewards of ownership of the financial asset have been retained, the financial asset are not de-recognised; and where substantially all the risks and rewards of ownership of the financial asset have been neither transferred nor retained, it shall be determined whether the entity retains the control over the asset and the asset shall be accounted for in accordance with the above mentioned policies.

5. *Classification and measurement of financial liabilities*

Upon initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities. Upon initial recognition, financial liabilities are measured at fair value. For the financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss for the current period; and for other financial liabilities, the relevant transaction costs are included in the initially recognised amount.

(i) Financial liabilities at fair value through profit or loss

The conditions for the financial liabilities to be classified as held for trading and to be designated to be measured at fair value through profit or loss upon initial recognition are the same as those for the financial assets to be classified as held for trading and to be designated to be measured at fair value through profit or loss upon initial recognition.

The financial liabilities at fair value through profit or loss are subsequently measured at the fair value. The gains or losses arising from the change in fair value and the dividend and interest expenses related to the financial liabilities are charged to the profit or loss for the current period.

(ii) Other financial liabilities

The derivative financial liabilities linked to and to be settled through delivery of the equity instruments that are not quoted in an active market and the fair value of which cannot be reliably measured such equity instruments are subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method and the gains or losses arising from de-recognition or amortisation are recognised in profit or loss for the current period.

(iii) Financial guarantee contracts

The financial guarantee contracts other than the financial liabilities designated as at fair value through profit or loss are initially recognised at fair value and subsequently measured at the amount determined in accordance with the Accounting Standards for Business Enterprises 13 – Contingencies or the balance of the initially recognised amount less the accumulated amortisation determined in accordance with the Accounting Standards for Business Enterprises 14 – Income, whichever is the higher.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Financial instruments *(continued)*

6. *De-recognition of financial liabilities*

The financial liabilities may not be de-recognised in whole or in part unless and until the present obligations of the financial liabilities are discharged in whole or in part. Where the Company (the debtor) concludes an agreement with a creditor to replace the existing financial liabilities with the new financial liabilities and the contractual terms for new financial liabilities are materially not the same as existing financial liabilities, the existing financial liabilities are de-recognised and the new financial liabilities are recognised.

Where the financial liabilities are de-recognised in whole or in part, the difference between the carrying amount of the de-recognised portion and the consideration paid (including nonmonetary assets transferred or new financial liabilities assumed) is recognised in profit or loss for the current period.

7. *Derivatives and embedded derivatives*

Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The gain or loss arising from the change in fair value of a derivative is recognised in profit or loss for the current period, unless the derivative is designated and highly effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship in accordance with hedging accounting policies.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a stand-alone derivative if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it will designate the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

8. *Offsetting financial assets and financial liabilities*

Where the Company has a legal right to offset the recognised financial assets and financial liabilities and may enforce this right at present and plans to net or realise the financial assets and settle the financial liabilities, the remaining balance upon the offset between the financial assets and the financial liabilities is presented in the balance sheet. Otherwise, the financial assets and the financial liabilities are separately presented in the balance sheet and do not offset against each other.

9. *Equity instruments*

An equity instrument refers to a contract which proves the ownership of the remaining equities in net assets of the Company after deduction of all liabilities. The issuance (including refinancing), repurchase, sale or cancellation of equity instruments is accounted for as the change in equity. The Company does not recognise the change in fair value of equity instruments. Transaction costs related to equity transactions are charged to equity.

Various distributions (excluding dividends) made by the Company to holders of equity instruments reduce owners' equity. The Company does not recognise the change in fair value of equity instruments.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(10) Accounts receivable

1. *Accounts receivable that are individually significant and subject to separate provision:*

- (i) The basis or criteria for determination of individually significant receivables

Accounts for 10% (including 10%) or above of the total receivables, except for the Greencool receivables.

- (ii) Method of provision for bad debt in individually significant receivables

Individually significant receivables are subject to separate impairment test. Where there is an objective evidence of impairment, the balance of the present value of the future cash flows less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts. Where there is no impairment according to the separate impairment test, the accounts receivable shall be combined into a group of receivables with similar credit risk characteristics and subject to a further impairment test collectively.

2. *Receivables subject to collective provision*

Basis for determination of groups is as follows

Group 1 A group of accounts receivable based on ageing characteristics

Group 2 A group of Greencool receivables

Method of provision for bad debts by groups

Group 1 Using ageing analysis method

Group 2 Conducting an individual impairment test, where the balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts

For Group 1, receivables for which provision for bad debts is made using age analysis method are as follows:

Ageing	Ratio of provision for bad debts (%)
Within 3 months (including 3 months)	0
Over 3 months but within 6 months (including 6 months)	10
Over 6 months but within 1 year (including 1 year)	50
Over 1 year	100

Individually insignificant receivables subject to separate provision

Reason for individual provision	Receivables which are individually insignificant over one year or above.
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Method for provision for bad debts	Where there is an objective evidence of impairment, receivables shall be separated from the group they belong to and subject to an individual test. The balance of the present value of the future cash flows expected to be derived from the receivables less than the carrying amount shall be treated as impairment loss and accounted for as provision for bad debts
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Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(11) Inventories

1. *Classification of inventories*

Inventories are classified into: raw materials, work in progress, finished goods and etc.

2. *Measurement of inventories*

Inventories are initially measured at actual cost. Cost of an inventory consists of purchase cost, processing cost and other cost.

Raw materials are measured at the standard cost upon delivery, and amortized at the end of each month according to cost differences in order to adjust the standard cost to actual cost.

Work in progress and finished goods are measured at the actual cost upon delivery, whereas the actual cost is determined using the weighted average method.

3. *Basis for determination of net realizable value and method of provision for declines in value of inventories*

The net realizable value of commodity inventories for immediate sales, such as finished goods, commodity stocks, and materials ready for sale, is determined based on the estimated selling price less the estimated selling and distribution costs and related taxes in the ordinary course of business;

The net realizable value of raw materials is determined based on the estimated selling price of finished goods manufactured, less the costs estimated to be incurred up to completion and estimated costs necessary to make the sale, and related taxes in the ordinary course of business;

For inventories held for fulfilling sales contract or labor contract, the net realizable value is determined based on the contract price; if the amounts of inventories held exceed the amounts of sales order specified in the contract, the net realizable value of the excess portion is determined based on the general market price.

The Company takes general inventory checkup at each balance sheet date, and records or adjusts impairment loss on inventories at the lower of cost or net realizable value. The provision for impairment loss on inventories is made on an individual basis in principle; for inventories in a large quantity and with relatively low unit prices, provision for impairment loss on inventories shall be made based on the category; for inventories relevant to the production and sales of products in the same region with same or similar use or purpose and difficult to measure separately, provision for impairment loss on inventories shall be made on an aggregated basis. In case the factors causing the previous write-down of inventories disappear, the write-down amount shall be reversed to the provision of impairment previously made and the reverse amount shall be charged to the profit or loss for the period.

4. *The group adopts the perpetual inventories system.*

5. *Amortization of low-value consumables and packaging materials*

Low-value consumables are expensed upon issuance.

Packaging materials are expensed upon issuance.

(12) Long-term equity investments

Long-term equity investments under this section refer to long-term equity investments in which the Company has control, joint control or significant influence over the investee. Long-term equity investment without control or joint control or significant influence of the Group is accounted for as available-for-sale financial assets or financial assets at fair value through profit or loss for the period. For details on its accounting policy, please refer to note 4(9) "Financial instruments".

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

Joint control is the Company's contractually agreed sharing of control over an arrangement, the activities under which must be decided by unanimous agreement from parties who share the control. Significant influence is the power of the Company to participate in the decision-making for financial and operating policies of an investee, but not to control or joint control the formulation of such policies together with other parties.

1. *Determination of investment cost*

For a long-term equity investment acquired through a business combination involving entities under common control, the initial investment cost shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-monetary assets transferred and the carrying amount of the debts assumed shall offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. In case that the consideration of the business combination is satisfied by issuing equity securities, the initial investment cost of the long-term equity investment shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. For a business combination involving entities under common control by acquiring equity interests in the combined party under common control in a series of transactions, the transactions shall be treated separately: in case of "a bundle of transactions", each of the transactions shall be accounted for as an acquisition of control; otherwise, the initial investment cost of the long-term equity investment shall be recognised at the carrying amount of the Company's share of the combined party's equity in the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the sum of the carrying amount of the long-term equity investment before combination and the book value of the additional consideration paid for further acquisition of shares on the date of combination shall offset against the capital reserve. Where the capital reserve is insufficient to offset, the retained earnings shall be adjusted. Other comprehensive income recognised for the equity investment held prior to the date of combination by using equity method or for available-for-sale financial assets will not be accounted for in the financial statements.

For a long-term equity investment acquired through a business combination involving entities not under common control, the initial investment cost of the long-term equity investment shall be recognised at the cost of combination on the date of acquisition. Cost of combination includes the aggregate fair value of assets paid, liabilities incurred or assumed and equity securities issued by the acquirer. For a business combination involving entities not under common control by acquiring the equity in the acquiree in a series of transactions, the transactions shall be treated separately: in case of "a bundle of transactions", each of the transactions shall be accounted for as an acquisition of control; otherwise, the initial investment cost of the long-term equity investment shall be accounted for using the cost method at the sum of the carrying amount of equity investment previously held in the acquiree and the additional investment cost. Where the equity investment previously held is accounted for by using the equity method, the corresponding other comprehensive income will not be accounted for. Where the equity investment previously held is classified as an available-for-sale financial asset, the difference between its fair value and carrying amount, as well as the accumulated changes in fair value previously included in the other comprehensive income shall be recognised in the profit or loss for the current period.

Agent fees incurred by the combining party or the acquirer for a business combination such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period when such expenses incurred.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

1. *Determination of investment cost (continued)*

The long-term equity investment acquired other than by means of a business combination shall be initially measured at cost. Such cost, depending upon the means of acquisition of the long-term equity investment, is determined based on, among others, the purchase price actually paid by the Company in cash, the fair value of equity securities issued by the Company, the agreed value by the investment contracts or agreements, fair value or original carrying amount of the asset exchanged in a non-monetary asset exchange transaction, and fair value of the long-term equity investment. The costs, taxes and other necessary expenses that are directly attributable to the acquisition of the long-term equity investment are also included in the investment cost. Where an additional equity investment gives rise to an ability to exercise a significant influence or joint control over the investee but without obtaining the control, the cost of the long-term equity investment shall be the sum of fair value of the equity investment previously held determined in accordance with “Accounting Standard for Business Enterprises 22 – Recognition and Measurement of Financial Instruments” and additional investment cost.

2. *Subsequent measurement and recognition of profit or loss*

A long-term equity investment with joint control (excluding that constituting a joint venture) over or significant influence on the investee is accounted for by using the equity method, and a long-term equity investment with control over the investee is accounted for in the Company’s financial statements by using the cost method.

(i) Long-term equity investments accounted for by using the cost method

Under the cost method, a long-term equity investment is measured at its initial investment cost. The cost of the long-term equity investment shall be adjusted in case of any additional investment or return. Except for the actual consideration paid on acquisition of the investment or cash dividends or profits declared but not yet distributed which are included in the consideration, the gain on investment for the period is recognised at the Company’s share of cash dividends or profits declared by the investee.

(ii) Long-term equity investments accounted for by using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Company’s share of fair value of the investee’s identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the Company’s share of fair value of the investee’s identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. Subsequent measurement and recognition of profit or loss *(continued)*

(ii) Long-term equity investments accounted for by using the equity method *(continued)*

Under the equity method, the gain on investment and other comprehensive income shall be recognised at the Company's share of the net profit or loss and other comprehensive income realised by the investee, respectively, and carrying amount of the long-term equity investment shall be adjusted accordingly. Carrying amount of the long-term equity investment shall be reduced by the Company's share of the profit or cash dividend declared by the investee. In respect of the changes in owners' equity of the investee other than in net profit or loss, other comprehensive income and profit distribution, the carrying amount of the long-term equity investment shall be adjusted and included in the capital reserves. The Company recognises its share of the investee's net profit or loss based on fair value of the investee's identifiable assets at the time of acquisition, after making appropriate adjustments thereto. In the case of any inconsistency between the accounting policies and accounting periods adopted by the investee and by the Company, the financial statements of the investee shall be adjusted in accordance with the accounting policies and accounting periods of the Company, and the gain on investment and other comprehensive income shall be recognised accordingly. In respect of the transactions between the Company and its associates and joint ventures in which the assets invested or disposed of are not part of the business, the share of unrealised gain or loss arising from inter-group transactions shall be offset by the portion attributable to the Company, and the gain or loss on investment shall be recognised accordingly. However, any unrealised loss arising from inter-group transactions between the Company and an investee is not offset to the extent that the loss is impairment loss of the assets transferred. Where the Company invests to its joint ventures or associates an asset forming part of a business, giving rise to the acquisition of a long-term equity investment by the investor without obtaining control, the initial investment cost of the additional long-term equity investment shall be recognised at fair value of the business invested. The difference between initial investment cost and carrying amount of the business invested will be fully included in profit or loss for the current period. Where the Company disposes of an asset forming part of a business to its associates or joint ventures, the difference between the consideration received and the carrying amount of the business shall be fully included in profit or loss for the current period. Where the Company acquires from its associates or joint ventures an asset forming part of a business, the profit or loss related to the transaction shall be accounted for and recognised in accordance with "Accounting Standards for Business Enterprises 20 "Business Combination".

The Company's share of net loss of the investee shall be recognised to the extent that the carrying amount of the long-term equity investment and any long-term equity that substantially forms part of the investor's net investment in the investee are written down to zero. If the Company has to assume additional obligations to the loss of the investee, the estimated liabilities shall be recognised for the estimated obligation assumed and charged to the profit or loss as investment loss for the period. Where the investee makes profits in subsequent periods, the Company shall re-recognise its share of the profits after setting off against the share of unrecognised losses.

(iii) Acquisition of minority interests

When preparing the consolidated financial statements, the Company adjusts the capital reserve and, if the capital reserve is insufficient, adjusts the retained earnings based on the difference between the additional long-term equity investment arising on acquisition of minority interests and the Company's share in the net assets of the subsidiary accrued from the acquisition date (or combination date) in proportion to the additional shareholdings.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. *Subsequent measurement and recognition of profit or loss (continued)*

(iv) Disposal of long-term equity investment

In the consolidated financial statements, if the parent disposes part of the long-term equity investment in the subsidiary without losing its control, the difference between the disposal price and the Company's share in the net assets of the subsidiary attributable to the disposal of the long-term equity investment is recognised in the shareholders' equity; if the parent disposes part of the long-term equity investment in the subsidiary resulting in the loss of its control over the subsidiary, the accounting treatment shall be in accordance with the policies as set out in note 4(5)ii "Preparation of consolidated financial statements".

In other cases, upon the disposal of a long-term equity investment, the difference between the carrying amount of the investment and the price received is recognised in the profit or loss for the current period.

For a long-term equity investment that is accounted for using the equity method where the remaining equity after disposal continues to be accounted for using the equity method, the portion of other comprehensive income previously included in shareholder's equity shall be treated in accordance with the same basis as the investee directly disposes of relevant asset or liability on pro rata basis at the time of disposal. The owners' equity recognised for the change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period on pro rata basis.

For a long-term equity investment accounted for using the cost method where the remaining equity after disposal continues to be accounted for using cost method, other comprehensive income recognised using the equity method or in accordance with the standard for recognition and measurement of financial instruments prior to the acquisition of control over the investee shall be treated in accordance with the same basis as the investee directly disposes of relevant asset or liability, and transferred to profit or loss for the current period on pro rata basis. The change in owners' equity recognised in net assets of the investee by using the equity method other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period on pro rata basis.

In preparing separate financial statements, if control is lost over the investee upon partial disposal of equity investment, the remaining equity with joint control or an ability to impose a significant influence over the investee after disposal shall be accounted for using the equity method, and shall be adjusted as if it has been accounted for using the equity method since it was acquired. The remaining equity without joint control or an ability to impose a significant influence over the investee after disposal shall be accounted for based on the standard for recognition and measurement of financial instruments, and the difference between its fair value and carrying amount as at the date of loss of control shall be included in profit or loss for the current period. In respect of other comprehensive income recognised using the equity method or in accordance with the standard for recognition and measurement of financial instruments prior to the acquisition of control over the investee, it shall be accounted for in accordance with the same basis as the investee directly disposes of relevant asset or liability when the control is lost. The change in owners' equity recognised in net assets of the investee by using the equity method other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period at the time when the control over investee is lost. Where the remaining equity after disposal is accounted for using the equity method, other comprehensive income and other owners' equity shall be carried forward on pro rata basis. Where the remaining equity after disposal is accounted for in accordance with the standard for recognition and measurement of financial instruments, other comprehensive income and other owners' equity shall be fully carried forward.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Long-term equity investments *(continued)*

2. *Subsequent measurement and recognition of profit or loss (continued)*

(iv) Disposal of long-term equity investment *(continued)*

If the joint control or significant influence over the investee is lost upon partial disposal of equity investment, the remaining equity after disposal shall be accounted for in accordance with the standard for recognition and measurement of financial instruments. The difference between its fair value and carrying amount as at the date of loss of joint control or significant influence shall be included in profit or loss for the current period. For other comprehensive income recognised previously for the equity investment using equity method, it shall be accounted for in accordance with the same basis as the investee directly disposes of relevant asset or liability at the time when the equity method was ceased to be used. The owners' equity recognised arising from the change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution shall be transferred to profit or loss for the current period at the time when the equity method was ceased to be used.

Where the Company disposes of its equity investment in a subsidiary in a series of transactions until the control is lost, and such transactions form "a bundle of transactions", each transaction shall be accounted for as a disposal of equity investment of the subsidiary resulting in a loss of control. The difference between the consideration for each transaction and the carrying amount of the long-term equity investment attributable to the equity interests disposed prior to loss of control shall be initially recognised as other comprehensive income, and upon loss of control, transferred to profit or loss for the period when the loss of control takes place.

3. *Impairment test and provision for impairment*

For long-term equity investments in subsidiaries, joint ventures and associates, the Company provides for impairment in accordance with the policies in note 4(20) "Impairment of long-term assets".

(13) Investment properties

Investment properties are the properties held to earn rental or for capital appreciation or both, and represent buildings which have been leased out by the Company.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

The Company adopts cost method for subsequent measurement of investment property, which is depreciated or amortised using the same policy as that for buildings and land use rights.

The method for impairment test of investment property and measurement of impairment provision are detailed in note 4(20) "Impairment of long-term assets".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

(14) Fixed assets

1. *Recognition of fixed assets*

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one accounting year. Fixed assets are recognized when they meet the following conditions:

- (i) When it is probable that the economic benefits associated with the fixed asset will flow into the Company;
- (ii) The cost of the fixed asset can be reliably measured.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(14) Fixed assets (continued)

2. Depreciation of fixed assets

Fixed assets are depreciated by categories using the straight-line method over their useful life. Depreciations are provided since the following month after the fixed assets are available for intended use, and are terminated when the fixed assets are derecognised or classified as non-current assets held-for-sale (except for fixed assets that are fully depreciated and are still in use, and lands that are accounted separately). When no impairment provision is made, the annual depreciation rates for different fixed assets which are determined by asset category, estimated useful life and estimated residual value are as follows:

Category	Useful life (year)	Rate of residual value (%)	Annual depreciation rates
Buildings	20-50	0-10	1.8-5
Machinery and equipment	5-20	5-10	4.5-19
Electronic equipment, appliances and furniture	5-10	5-10	9-19
Motor vehicles	5-10	5-10	9-19
Moulds	3	0	33.33

Estimated net residual value of a fixed asset is the estimated amount that the Company would obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the stage and in the condition expected at the end of its useful life.

3. Impairment test and provision for impairment loss of fixed assets

Please see note 4(20) "Impairment of long-term assets" for recognition of provision for impairment of fixed assets of the Company.

4. Explanation on other matters

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Company and the relevant cost can be measured reliably. Other subsequent expenditures shall be charged to profit or loss when incurred.

Fixed assets are derecognised when there is no economic benefit arising from disposal or expected use or disposal of fixed assets. When a fixed asset is sold, transferred, retired or damaged, the Company shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

(15) Construction in progress

1. Measurement of construction in progress

Constructions in progress are measured at actual cost and are accounted for by individual projects.

2. Timing of transfer from construction in progress to fixed assets

Constructions in progress are transferred to fixed assets at all the actual expenses incurred when they are ready for intended use. When construction in progress is ready for its intended use but has not completed the final accounts, it shall be transferred to fixed assets at estimated cost, which is based on project budget, project price or actual construction cost, on the date when it is ready for intended use, and depreciation is made accordingly pursuant to the Company's depreciation policy in relation to fixed assets. The estimated cost will be adjusted for the actual cost after the completion of the final accounts without adjustments to the depreciation already provided.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(15) Construction in progress *(continued)*

3. *Provision for impairment of construction in progress*

Please see note 4(20) "Impairment of long-term assets" for the recognition of provision for impairment on construction in progress.

(16) Borrowing costs

1. *Principles for recognition of capitalization of borrowing costs*

Assets eligible for capitalization refer to the fixed assets, investment properties, inventories and other assets that require a substantially long period of time of acquisition and construction or production activities for intended use or for sale. Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary costs, and exchange differences arising from foreign currency borrowings.

Where the borrowing costs incurred by the Company can be directly attributable to the acquisition and construction or production activities of assets eligible for capitalization, it shall be capitalized and recorded as part of the costs of relevant assets. Other borrowing costs shall be recognized as expenses in profit or loss for the period on the basis of the actual amount incurred at the time when they are incurred.

The borrowing costs shall not be capitalized until they meet the following requirements at the same time:

- (i) The expenditure for the asset has already been incurred, which shall include the expenses by means of cash, transfer of non-cash assets or interest bearing debts paid for the acquisition and construction or production activities of the asset eligible for capitalization;
- (ii) The borrowing costs have been incurred;
- (iii) The acquisition and construction or production activities necessary to prepare the asset for its intended use or for sale have already commenced.

2. *Period of capitalization of the borrowing costs*

The borrowing costs that are directly attributable to the acquisition and construction or production of qualifying asset are capitalized as the cost before the asset is ready for its intended use or sale. Borrowing costs incurred afterwards are recognised in profit or loss for the current period.

Where the acquisition and construction or production activities of a qualifying asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. Should the interruption be a necessary step for the asset qualified for capitalization under acquisition and construction or production to become ready for its intended use or sale, the borrowing cost shall continue to be capitalised. Borrowing costs arising during the interruption period shall be recognised in the profit or loss for the period until the acquisition and construction or production of the asset is resumed, and by then capitalisation of the borrowing costs shall also be resumed. Where part of the acquisition and construction or production activities of asset qualified for capitalization is completed and available for separate use, the capitalization of borrowing cost for that part of the asset shall be ceased.

3. *Calculation of capitalized borrowing costs*

For the specific borrowings obtained for the acquisition and construction or production of a qualifying asset, the interest expense (deducting any interest income earned from depositing the unused specific borrowings with the bank or any investment income arising on the temporary investment of those borrowings) and the ancillary expense incurred in relation to the specific borrowings shall be capitalized until the qualifying asset is ready for the intended use or sale.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(16) Borrowing costs *(continued)*

3. Calculation of capitalized borrowing costs *(continued)*

For the general borrowings obtained for the acquisition and construction or production of a qualifying asset, the interest expense to be capitalized is determined by multiplying the capitalization rate of general borrowings used by the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowings.

Where there is any discount or premium, the amount of discounts or premiums shall be amortized in each accounting period by using effective interest rate method, and an adjustment shall be made to the amount of interests in each period.

During the capitalization period, exchange differences related to principal and interest on specific borrowings denominated in foreign currencies are capitalized as part of the cost of the qualifying assets.

(17) Intangible asset

1. Initial measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Land use right acquired shall normally be recognised as an intangible asset. For self-constructed buildings (e.g. plants), the expenditures on the land use right and cost of the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as an fixed asset.

2. Subsequent measurement of intangible assets

(i) Useful life of intangible assets

The useful life of intangible assets is determined upon acquisition. For an intangible asset with definite useful life, the Company estimates the years of its useful life or the amount of similar measurement units such as production capacity constituting a useful life. An intangible asset with unforeseeable life to bring economic benefits to the Company is deemed to be an intangible asset with indefinite useful life.

(ii) Amortisation of intangible assets

An intangible asset with a definite useful life are amortized over the estimated useful life from the month of acquisition using the straight-line method. An intangible asset with indefinite useful life are not amortized but an impairment test is carried out at the end of the year.

During the end of the period, the Company shall check the useful life and the amortization method of intangible assets with limited useful life and carry out accounting estimate change in case that a change happens. In addition, the Company shall check the useful life of intangible assets with indefinite useful life, if there are evidences showing that the intangible assets can bring economic benefit for the Company within the foreseeable period, the Company shall estimate the useful life and carry out amortization according to the amortization policy for intangible assets with finite useful life.

(iii) When an intangible asset is expected to no longer generate any future economic benefits to the Company at the end of the year, the carrying amount of the intangible asset is entirely transferred into the profit or loss for the period.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(17) Intangible asset *(continued)*

2. Subsequent measurement of intangible assets *(continued)*

- (iv) Impairment of intangible assets

Please see note 4(20) "Impairment of long-term assets" for the recognition of provision for impairment of intangible assets.

(18) Expenditure on research and development

1. The Group classifies the expenditure on an internal research and development project into expenditure at the research phase and expenditure at the development phase.

2. Specific criteria for the classification of the Company's internal research and development projects into research phase and development phase:

Research phase: the phase at which creative investigation and research activities are carried out as planned for the purpose of obtaining and understanding new scientific or technical knowledge.

Development phase: the phase at which the research achievement or other knowledge is applied to a particular project or design in order to produce new or substantially improved materials, devices, products and etc. before commercial production or utilization.

3. Expenditure at the research phase of an internal research and development project is recognized in profit or loss for the period when it is incurred.

4. Expenditure at the development phase of an internal research and development project is recognised as an intangible asset only if all of the following conditions are satisfied at the same time:

- (i) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) Management intends to complete and to use or sell the intangible asset;
- (iii) It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or for the intangible asset itself, and that it can be used if the intangible asset is to be used internally;
- (iv) There are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets;
- (v) The expenditure attributable to the intangible asset at its development phase can be reliably measured.

5. All the expenditures on research and development which cannot be distinguished between the research phase and development phase are recognised in the profit or loss when incurred.

(19) Long-term prepaid expenses

1. Long-term prepaid expenses are expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on a straight-line basis over the expected beneficial period.

2. Pre-operating expenses during the establishment period should be recognized directly in profit or loss in the month as incurred.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(20) Impairment of long-term assets

The Company will judge if there is any indication of impairment as at the balance sheet date in respect of noncurrent non-financial assets such as fixed assets, construction in progress, intangible assets with a finite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill, intangible assets with an indefinite useful life and intangible assets not ready for use will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

(21) Employee benefits

Staff remuneration of the Company mainly includes short-term staff remuneration, post-employment benefits, termination benefits and other long-term staff benefits, in which:

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs and non-monetary welfare etc. Short-term remuneration incurred during the accounting period in which the staff provided services for the Company is recognised as a liability, and included in profit or loss for the current period or as related asset cost. Non-monetary welfare is measured at fair value.

Post-employment benefits mainly include defined contribution plan. Defined contribution plan mainly includes pension insurance premium and unemployment insurance premium. Relevant contribution amount is included as part of related asset cost or in profit or loss for the current period during the period in which the expenses incurred.

Where the Company terminates the employment relationship with employees before the expiration of the employment contracts or proposes compensation to encourage employees to accept voluntary redundancy, it shall recognise employee compensation liabilities arising from termination benefit and included in profit or loss for the current period, on the date when the Company may not revoke unilaterally the termination benefit provided due to the termination of employment relationship plans or employee redundancy proposals or when the Company recognises the cost and expenses related to restructuring involving in the payment of termination benefit, whichever is earlier. However, if the termination benefit is not expected to be fully paid within 12 months from the end of the reporting period, it shall be accounted for as other long-term staff remuneration.

The early retirement plan shall be accounted for in accordance with the same accounting principles for termination benefit abovementioned. The salaries or wages and the social contributions to be paid to the retiring employees for the period from the date on which the employees cease rendering services to the scheduled retirement date, shall be recognised as termination benefit in profit or loss for the current period if the recognition criteria for provisions are satisfied.

Where other long-term employee benefit provided by the Company for its employees falls in defined contribution plans, it shall be accounted for as a defined contribution plan, or otherwise as a defined benefit plan.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(22) Provisions

Obligations pertinent to the contingencies which satisfy all the following conditions are recognised as accrued liabilities: (i) The obligation is a current obligation borne by the Company; (ii) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (iii) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or part of the expenses required for settlement of accrued liabilities are expected to be compensated by a third party, the compensation amount shall, on a recoverable basis, be recognised as an asset separately, and compensation amount recognised shall not be more than the carrying amount of the accrued liabilities.

(23) Share-based payments and equity instruments

1. *Share-based payments*

Equity-settled share incentives are granted to senior management by the Company. Equity instruments used for share incentives are measured at their fair value as at the date of grant.

2. *Accounting treatment of share-based payments*

The equity-settled share-based payment in return for employees' services shall be measured based on the fair value of equity instruments granted to the employees on the grant date. If the equity-settled share-based payment cannot be vested until the services are completed in vesting period or until the prescribed performance conditions are met, then within the vesting period, the amount of fair value should, based on the best estimate of the number of vested equity instruments, be included in relevant costs or expenses according to the straight-line method, and the capital reserves should be increased accordingly when the equity instruments can be vested upon grant.

3. *Determination of fair value of equity instruments*

If there is an active market for an equity instrument granted such as share option, the fair value of the equity instrument is determined based on the quoted price in the active market. If not, the fair value is determined using the option pricing model.

4. *Recognition basis for the best estimate of exercisable equity instruments*

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the best estimate made by the Company according to the latest available subsequent information as to changes in the number of employees with exercisable rights. The effect of the above estimate is included in relevant costs or expenses for the period and the capital reserve is adjusted accordingly. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

5. *Accounting treatment for implementation, amendment and termination of share-based payments*

When there is changes in the Company's share-based payment plans, if the modification increases the fair value of the equity instruments granted, corresponding recognition of service increases in accordance with the increase in the fair value of the equity instruments. Increase in the fair value of equity instruments refers to the differences between the fair values of the date of modification. If the modification reduces the total fair value of shares paid or is not conducive to the use of other employees' share-based payment plans, it will continue to be accounted for, as if the change had not occurred, unless the Company cancelled some or all of the equity instruments granted.

During the vesting period, if the equity instruments granted are cancelled, the Company would treat the cancelled equity instruments granted as accelerated vesting, and the amount within the remaining period should be recognized immediately in profit or loss while recognizing the capital reverses. If employees or other parties can meet non-vesting conditions but do not meet within the vesting period, the Company will treat it as cancelled equity instruments granted.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(24) Revenue

1. *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied: the significant risks and rewards of ownership of the goods have been transferred to purchaser; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; it is probable that the associated economic benefits will flow to the Company; the relevant revenue and costs can be measured reliably.

2. *Rendering of services*

On the balance sheet date, outcome of a transaction on rendering of services that could be reliably estimated shall be recognised using percentage-of-completion method. The Company determines the total revenue from rendering of services based on the purchase price received or receivable by the party to whom the services are rendered under the contract or agreement, except when the purchase price is unfair.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (i) The relevant amount of revenue can be reliably measured; (ii) it is probable that the economic benefits will flow into the enterprise; (iii) the completion schedule of the transaction can be reliably ascertained; and (iv) transaction costs incurred and to be incurred can be reliably measured.

On the balance sheet date, where the outcome of a transaction on rendering of services cannot be reliably estimated, accounting treatment is carried out as follows:

- (i) If the cost incurred is expected to be recoverable, the revenue from rendering of services shall be recognised at the cost that has been incurred, and an equivalent amount is carried forward to profit or loss as service cost.
- (ii) If the cost incurred is not expected to be recoverable, the cost that has been incurred shall be recognised in the profit or loss for the period, and no revenue from such services is recognised.

When a contract or agreement signed by the Company includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognized respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognized as sales of goods in full.

3. *Transfer of asset use rights*

When it is probable that the economic benefits related to the transaction will flow to the Company and the revenue from transfer of asset use rights can be reliably measured, it is recognised as follows:

- (i) The interest income is recognised on basis of the length of time during which and effective interest rate at which the Company's cash funds are utilized by the others.
- (ii) The royalty income is recognised as income on the accrual basis in accordance with the underlying contracts or agreements.

(25) Government grants

Government grants are monetary assets or non-monetary assets transferred from the government to the Company at no consideration, excluding capital considerations from the government as an owner of the Company. Government grants are divided into asset-related government grants and income-related government grants.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(25) Government grants *(continued)*

Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: (1) In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and (2) in case of general description without specifying any project in such documents, the grants are classified as related to income.

If a government grant is in the form of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in profit or loss for the period.

Government grants are generally recognized when received and measured at the amount actually received, but are measured at the amount likely to be received when there is conclusive evidence at the end of the period that the Company will meet related requirements of such grants and will be able to receive the grants. The government grants so measured should also satisfy the following conditions: (1) the amount of the grants be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; (2) the grants be given based on financial support projects and fund management policies officially published and voluntarily disclosed by local financial authorities in accordance with the Requirements for Disclosure of Government Information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; (3) the date of payment be specified in related documents and the payment thereof will be covered by corresponding budget to ensure such grants will be paid on time as specified; (4) pursuant to the specific situation between the Company and such grants, other relevant conditions (if any) should be satisfied.

A government grant related to an asset shall be recognized as deferred income, and included in profit or loss over the useful life of the asset based on reasonable and systemic methods. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs or losses are recognised; where the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the current period.

At the same time, if the government grants contain both assets related and income related, the accounting treatment will depend on the different parts of government grants; if it is difficult to distinguish, the whole government grants are classified as the income-related government grants.

The government grants related to daily activities of the Company, depending on the essence of economic business, are recognized in other income, otherwise, recognized in non-operating income or non-operating expenses.

For the repayment of a government grant already recognized, if there is any balance of related deferred income, the repayment shall be set-off against the book balance of deferred income, and any excess shall be recognized in profit or loss for the period; if there is other circumstance, the repayment shall be recognized immediately in profit or loss for the period.

(26) Deferred tax assets/deferred tax liabilities

1. Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the income tax expected to be paid (or returned) as required by tax laws. Taxable income, based on which the current income tax expense is calculated, is derived after adjusting the accounting profit before tax for the year in accordance with relevant requirements of tax laws.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(26) Deferred tax assets/deferred tax liabilities *(continued)*

2. *Deferred income tax assets and deferred income tax liabilities*

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of an item that is not recognised as an asset or liability but has a tax base that can be determined according to tax laws, shall be recognised for deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable income (or deductible loss) at the time of the transaction. In addition, for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, if the Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future, relevant deferred income tax liabilities are not recognised either. Except for abovementioned circumstances, the Company recognises deferred income tax liabilities arising from other taxable temporary differences.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable income (or deductible loss) at the time of the transaction. In addition, for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, if it is not probable that the temporary difference will reverse in the foreseeable future, and it is not probable that taxable income will be available in the future against which the deductible temporary difference can be utilised, relevant deferred income tax assets are not recognised. Except for abovementioned circumstances, the Company recognises deferred income tax assets arising from other deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised.

The Company recognises a deferred income tax asset for deductible losses and tax credits that can be carried forward to subsequent periods, to the extent that it is probable that future taxable income will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the tax laws.

At the balance sheet date, the Company reviews the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable income will not be available in future periods against which the benefit of deferred income tax asset can be utilised, the carrying amount of the deferred income tax asset shall be written down. Any amount so written down shall be reversed when it becomes probable that sufficient taxable income will be available.

3. *Income tax expense*

Income tax expense comprises current income tax expense and deferred income tax expense.

Current and deferred income tax expense or income is included in profit or loss for the current period, except for those recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in shareholders' equity, which are recognised in other comprehensive income or shareholders' equity, and except for deferred income tax arising from a business combination, which is used to adjust the carrying amount of goodwill.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(26) Deferred tax assets/deferred tax liabilities *(continued)*

4. *Offsetting income tax*

With the legal rights of netting off and with an intention to net off or realize the assets and settle the liabilities, the Company records the net current income tax assets and current income tax liabilities after offsetting between the assets and liabilities.

When the Company has the legal rights of netting off current income tax assets and liabilities, and deferred income tax assets and deferred income tax liabilities are related to income tax imposed on the same taxable entity by the same tax competent authority or related to different taxable entities, the Company records the net current income tax assets and current income tax liabilities after offsetting between the assets and liabilities, provided that the taxable entity involved is intended to net off current income tax assets and liabilities or, realise assets and settle liabilities during each significant future period whenever deferred income tax assets and liabilities would be reversed.

(27) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments on the basis of operating segments.

An operating segment is a component of the Company that satisfies all the following conditions:

1. The component is able to generate revenues and incur expenses in the course of ordinary activities;
2. The operating results of the component are regularly reviewed by the Company's management in order to make decisions about resources to be allocated to the segment and to assess its performance;
3. Information on financial position, operating results and cash flows of the component is available to the Company. The accounting policies of operating segments are the same with the major accounting policies of the Company.

The segment revenue, operating results, assets and liabilities include the amount that is directly attributable to the segment and can be allocated to the segment on a reasonable basis. Revenue, assets and liabilities of an operating segment are determined at the amount before the elimination of inter-group transactions and inter-group current account balances. Transfer price between operating segments is calculated based on terms similar to those of the transactions with other parties.

(28) Operating leases

(1) *The Company as lessee under operating leases*

Lease payment for operating lease is recognized as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is accounted in profit or loss for the current period. Contingent rental is recognized as profit or loss for the current period upon occurrence.

(2) *The Company as lessor under operating leases*

Rental income is recognized in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is significant is capitalized when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is less significant is included in the profit or loss for the period when incurred. Contingent rental is recognized as profit or loss for the current period upon occurrence.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(29) Changes in significant accounting policies and accounting estimates

1. *Changes in accounting policies*

On 28 April 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 – Non-current Assets and Disposal Groups Held for Sale and Termination of Business Operation based on Accounting [2017] No. 13, and such accounting standards were implemented since 28 May 2017. On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 revision) based on Accounting [2017] No. 15, and such accounting standards were implemented since 12 June 2017. The Company started to implement the above two accounting standards according to the schedule required by the Ministry of Finance.

The Accounting Standards for Business Enterprises No. 42 – Non-current Assets and Disposal Groups Held for Sale and Termination of Business Operation standardizes the classification, measurement and presentation of non-current assets or disposal groups held for sale, and the presentation of termination of business operation.

Prior to the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 revision), the Company included the government grants received in the non-operating income. After the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 revision), the Company applied the new standard to the government grants which existed on 1 January 2017, while adjustments were made on the government grants newly conferred between 1 January 2017 and the date of implementation of this standard in accordance with this standard, which were: the government grants relating to ordinary activities and existed after 1 January 2017 would be included in other income; the government grants not relating to ordinary activities would be included in non-operating income.

On 25 December 2017, the Ministry of the Finance issued the “Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises” (No. 30 [2017] of the Ministry of Finance) (the “Notice”) which requires all financial statements for the year 2017 and thereafter be prepared in accordance with the Notice.

Prior to the issuance of the Notice, the Company took into account the disposal gain or loss arising from the fixed assets, construction in progress and intangible assets in calculating the non-operating income and non-operating expenses. After the Notice came into effect, the Company took into account the disposal gain or loss arising from the fixed assets, construction in progress and intangible assets in 2017 in calculating the asset disposal gain, and adjusted the comparative figures during the comparable period in accordance with the Notice. In 2016, the non-operating income and non-operating expense was reduced to RMB14,505,722.30 and RMB1,794,066.94, respectively. In 2016, gains on disposal of asset were increased to RMB12,711,655.36.

The change in accounting policy and the adjustment in accounting subject merely affect the presentation of the financial statements but will not affect the profit and loss, total assets and net assets of the Company.

2. *Changes in accounting estimates*

There are no changes in the accounting estimates of the Company in the period.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(30) Critical accounting judgements and estimates

The Company needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately measured in applying its accounting policies due to inherent uncertainties of operation activities. Such judgments, estimates and assumptions are made based on the historical experience of the Company's management and taking into account other relevant factors, and may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the actual results derived from the uncertainties of such estimates may differ from the current estimation of the Company's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Company regularly reviews the aforesaid judgments, estimates and assumptions on a going concern basis. A revision to accounting estimate is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

At the balance sheet date, the critical areas where the Company needs to make judgments, estimates and assumptions as to the amount of items in the financial statements are set out below:

1. *Classification of leases*

The Company classifies the leases as operating lease and financing lease in accordance with "Accounting Standards for Business Enterprises 21 – Leases". When making the classification, the management needs to analyse and judge whether all the risks and rewards relating to the ownership of leased out assets have been substantially transferred to the lessee, or whether the Company has been substantially obliged to all the risks and rewards relating to the ownership of leased assets.

2. *Provision for bad debts*

The Company adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

3. *Allowance for inventories*

In accordance with the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Company makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the valuation of marketability and net realisable values of inventories. Determination of impairment of inventories requires the management to make judgments and estimates on the basis of definite evidence and taking into account the purpose of holding inventories and impacts of events after balance sheet date. The difference between the actual outcome and original estimates shall affect the carrying amount of inventories and provision for and reversal of the provision for the impairment of inventories during the period in which the estimates are revised.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

4. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(30) Critical accounting judgements and estimates *(continued)*

4. *Provision for impairment of long term assets*

At the balance sheet date, the Company makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

When the carrying amount of an asset or asset groups is higher than the recoverable amount, which is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Company may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

5. *Depreciation and amortisation*

The Company shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value by using straight-line method. The Company shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Company according to its previous experience on similar assets and estimated technical updates. If there is any material change in the estimate previously made, the depreciation and amortisation will be adjusted over the future period.

6. *Deferred income tax assets*

The deferred income tax assets will be recognised for all unused tax losses to the extent that it is probable there will be sufficient taxable profits against which the loss is utilised. This requires the Company's management to apply numerous judgments to estimate the timing and amount of the future taxable profits so as to determine the amount of deferred income tax assets to be recognised with reference to the tax planning strategy.

7. *Income tax*

There are some uncertainties in tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the tax authority is required for pre-tax expensing of some items. Any difference between the final determined outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during the period in which the final amount is determined.

8. *Sales discount*

In recognising revenue from sales of goods, the Company estimates the relevant expenses in accordance with the terms of the sales agreement and deducts the sales discounts provided to customers from the revenue from sales of goods.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

5. TAXATION

(1) The types and rates of taxes applicable to the Group

Type of taxes	Tax basis	Tax rate
Value-added tax	Output value-added tax is computed at 17%, 13%, 11%, 6%, 5%, 3% of taxable income. Value-added tax is computed on the difference after deduction of input value-added tax. Input value-added tax is not deductible for value-added tax to which simple collection method is applicable.	
City maintenance and construction tax	Turnover tax payable	5%, 7%
Education surcharges	Turnover tax payable	3%
Enterprise income tax	Taxable income	25%/for details, please see the table below

Note: The overseas subsidiaries of the Company shall pay tax in accordance with local tax laws where they are located.

Notes on taxpayers subject to different enterprise income tax rates

Name of tax payer	Income tax rate
Guangdong Kelon Mould Co., Ltd.	15%
Hisense (Shandong) Air-Conditioning Co. Ltd.	15%
Qingdao Hisense Mould Co., Ltd.	15%
Hisense (Shandong) Refrigerator Ltd.	15%
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	15%
Hisense (Chengdu) Refrigerator Co., Ltd.	15%
Kelon International Incorporation	16.5%
Pearl River Electric Refrigerator Co., Ltd.	16.5%
Kelon Development Co., Ltd.	16.5%
Hisense Mould (Deutschland) GmbH	15%

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

5. TAXATION (continued)

(2) Tax preferences and approvals

According to the approved list of high and new technology enterprises by the Torch High Technology Industry Development Centre of the Ministry of Science and Technology, Guangdong Kelon Mould Co., Ltd., a subsidiary of the Company, which was subject to an enterprise income tax rate of 15% in 2016, was accredited as a high-tech enterprise (Certificate No. GR201744002498), with an effective period of three years (2017, 2018 and 2019). Pursuant to the tax preference regulation on High-tech Enterprise, this subsidiary is entitled to the preferential enterprise income tax rate of 15% in 2017, 2018 and 2019.

Hisense (Shandong) Air-conditioning Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201737100982) dated 4 December 2017 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Qingdao Hisense Mould Co., Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100218) dated 19 September 2017 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Hisense (Shandong) Refrigerator Ltd., a subsidiary of the Company, received the Certificate of Hightech Enterprise (Number: GR201737100767) dated 4 December 2017 which was jointly issued by the Qingdao Science and Technology Department, Qingdao Finance Department, Qingdao State Taxation Bureau and Qingdao Local Taxation Bureau, with an effective period of three years (2017, 2018 and 2019). According to the relevant tax preference regulation on High-tech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2017, 2018 and 2019.

Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd., a subsidiary of the Company, received the Certificate of High-tech Enterprise (Number: GR201632000323) dated 20 October 2016 which was jointly issued by the Jiangsu Science and Technology Department, Jiangsu Finance Department, Jiangsu Provincial State Taxation Bureau and Jiangsu Local Taxation Bureau, with an effective period of three years (2016, 2017 and 2018). According to the relevant tax preference regulation on Hightech Enterprise, the applicable enterprise income tax rate for this subsidiary is 15% in 2016, 2017 and 2018.

Hisense (Chengdu) Refrigerator Co., Ltd, a subsidiary of the Company, received a Letter of Chuan Jing Xin Chan Ye Han [2014] No.176 issued by Economic and Information Commission of Sichuan in 7 March 2014. The principle business of Chengdu Refrigerator was recognized as the state incentive items. According to the tax treaty in relation to western development policy, the applicable enterprises income tax for this subsidiary is 15% from 2014 to 2020.

The subsidiaries of the Company which were incorporated in Hong Kong are subject to an enterprise income tax on the estimated assessable profits derived from or arising in Hong Kong at a rate of 16.5% income tax rate for (2016: 16.5%).

Hisense Mould (Deutschland) GmbH, a subsidiary of the Company in Germany, is entitled to enterprise income tax rate of 15% in respect of its taxable profits as stipulated in German law.

(3) Other illustrations

Other taxes in the PRC, including, among others, real estate tax, land use tax, local education surcharges, vehicle and vessel tax, stamp duty and withholding individual income tax, are calculated and payable in accordance with the relevant regulations of the State tax laws.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, opening balances refer to balances as at 1 January 2017, whereas closing balances refer to balances as at 31 December 2017, and the current period refers to 2017, whereas the previous period refers to 2016 in the following notes (including major notes to the financial statements of the Company):

1. Cash at bank and on hand

Item	Closing balance	Opening balance
Cash on hand	7,953.54	
Bank deposits	952,311,017.12	794,984,893.88
Other cash at bank and on hand	2,043,709,224.23	1,432,436,436.86
Total	2,996,028,194.89	2,227,421,330.74
Including: Total amount deposited overseas	180,063,603.76	99,102,782.41

Notes to cash at bank and on hand:

Other cash at bank and on hand at the end of the period represented mainly security deposit.

Breakdown of restricted cash at bank and on hand are listed as follows:

Item	Closing balance	Opening balance
Security deposit	2,043,709,224.23	1,432,436,436.86
Total	2,043,709,224.23	1,432,436,436.86

2. Financial assets at fair value through profit or loss

(1) Category

Item	Closing balance	Opening balance
Financial assets held-for-trading	82,670.52	9,695,070.04
Including: Derivative financial assets	82,670.52	9,695,070.04
Total	82,670.52	9,695,070.04

(2) Notes to financial assets held-for-trading

Derivative financial assets mainly represented the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the year.

3. Notes receivable

(1) Classification of notes receivable

Category	Closing balance	Opening balance
Bank acceptance notes	3,438,917,579.17	3,265,788,951.82
Commercial acceptance notes	78,114,065.60	15,664,117.28
Total	3,517,031,644.77	3,281,453,069.10

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable (continued)

(2) Pledged notes receivable as at the end of the year

Item	Pledged amounts as at the end of the year
Bank acceptance notes	1,829,074,377.75
Total	1,829,074,377.75

(3) Notes endorsed as at the end of the year but not due as at the balance sheet date

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance notes	4,768,803,118.44	
Including: Endorsed and not due	4,768,803,118.44	
Discounted and not due		
Commercial acceptance notes	37,051,980.52	
Including: Endorsed and not due	37,051,980.52	
Discounted and not due		
Total	4,805,855,098.96	

(4) As at the end of the year, there were no notes receivable that were reclassified into accounts receivable due to failure of the issuers to settle the notes.

4. Accounts receivable

(1) Accounts receivable by category

Category	Closing balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	2,720,772,392.44	91.38	126,695,268.93	4.66	2,594,077,123.51
Subtotal	2,720,772,392.44	91.38	126,695,268.93	4.66	2,594,077,123.51
Individually insignificant but subject to separate provision for bad debts	256,811,559.77	8.62	17,660,941.60	6.88	239,150,618.17
Total	2,977,583,952.21	100.00	144,356,210.53	4.85	2,833,227,741.68

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

(1) Accounts receivable by category (continued)

(continued)

Category	Opening balance				Carrying amount
	Book value		Provision for bad debts		
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33
Subtotal	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33
Individually insignificant but subject to separate provision for bad debts					
Total	2,857,617,668.81	100.00	132,488,485.48	4.64	2,725,129,183.33

Accounts receivable in the group provided for bad debts by using ageing analysis method are analyzed based on invoice date as follows:

Ageing	Closing balance		
	Accounts receivable	Provision for bad debts	%
Within three months	2,531,579,660.57		
Over three months but within six months	63,798,420.20	6,379,842.02	10.00
Over six months but within one year	10,157,769.52	5,078,884.76	50.00
Over one year	115,236,542.15	115,236,542.15	100.00
Total	2,720,772,392.44	126,695,268.93	4.66

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB22,857,942.65; provision for bad debts recovered or reversed during the year amounted to RMB10,990,217.60.

(3) Accounts receivable written-off during the year

There were no accounts receivable written-off during the year.

(4) Top five accounts receivable by closing balance of debtors

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB1,782,904,338.03, accounting for 59.88% of the closing balance of accounts receivable. A provision for bad debts of RMB25,053,544.12 in total was made as at the end of the year.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments

(1) *Prepayments are presented by ageing as follows*

Ageing	Closing balance		Opening balance	
	Amount	%	Amount	%
Within one year	238,817,912.89	99.68	173,949,833.71	99.94
Over one year	777,035.82	0.32	99,235.63	0.06
Total	239,594,948.71	100.00	174,049,069.34	100.00

The Company had no prepayments with ageing of one year and significant amount as at the end of the period.

(2) *Top five prepayments by supplier based on closing balance*

The total top five prepayments of the Company by supplier based on closing balance amounted to RMB118,045,847.85, accounting for 49.27% of total closing balance of prepayments.

6. Other receivables

(1) *Other receivables are disclosed by category as follows*

Category	Closing balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	169,159,708.01	39.99	36,064,901.80	21.32	133,094,806.21
Greencool Companies	224,630,200.00	53.10	60,030,000.00	26.72	164,600,200.00
Subtotal	393,789,908.01	93.09	96,094,901.80	24.40	297,695,006.21
Individually insignificant but subject to separate provision for bad debts	29,232,170.95	6.91	14,616,085.48	50.00	14,616,085.47
Total	423,022,078.96	100.00	110,710,987.28	26.17	312,311,091.68

(continued)

Category	Opening balance				
	Book value		Provision for bad debts		Carrying amount
	Amount	%	Amount	%	
Individually significant and subject to separate provision for bad debts					
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method	117,638,475.30	34.37	36,818,206.10	31.30	80,820,269.20
Greencool Companies	224,630,200.00	65.63	60,030,000.00	26.72	164,600,200.00
Subtotal	342,268,675.30	100.00	96,848,206.10	28.30	245,420,469.20
Individually insignificant but subject to separate provision for bad debts					
Total	342,268,675.30	100.00	96,848,206.10	28.30	245,420,469.20

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(1) Other receivables are disclosed by category as follows (continued)

(i) Other receivables in the group provided for bad debts by aging are as follows:

Ageing	Closing balance		%
	Other receivable	Provision for bad debts	
Within three months	130,906,645.21		
Over three months but within six months	998,366.30	99,836.63	10.00
Over six months but within one year	2,579,262.66	1,289,631.33	50.00
Over one year	34,675,433.84	34,675,433.84	100.00
Total	169,159,708.01	36,064,901.80	21.32

(ii) Other receivables in the group provided for bad debts by Greencool Companies are as follows:

Name	Closing balance		Opening balance	
	Amount	Provision for bad debts	Amount	Provision for bad debts
Jinan San Ai Fu Chemical Co., Ltd. ("Jinan San Ai Fu")	81,600,000.00		81,600,000.00	
Jiangxi Keda Plastic Technology Co. Ltd. ("Jiangxi Keda")	13,000,200.00		13,000,200.00	
Zhuhai Longjia Refrigerating Plant Co., Ltd. ("Zhuhai Longjia")	28,600,000.00		28,600,000.00	
Zhuhai Defa Air-conditioner Fittings Co., Ltd. ("Zhuhai Defa")	21,400,000.00		21,400,000.00	
Wuhan Changrong Electrical Appliance Co., Ltd. ("Wuhan Changrong")	20,000,000.00		20,000,000.00	
Beijing Deheng Solicitors ("Deheng Solicitors")	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
Shangqiu Bingxiong Freezing Facilities Co., Ltd. ("Shangqiu Bingxiong")	58,030,000.00	58,030,000.00	58,030,000.00	58,030,000.00
Total	224,630,200.00	60,030,000.00	224,630,200.00	60,030,000.00

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB14,918,841.13; provision for bad debts recovered or reversed during the year amounted to RMB979,112.19.

(3) Other receivables written-off during the year

Item	Amount
Other receivables that are written off	76,947.76

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(4) Other receivables by nature

Nature	Closing balance	Opening balance
Security deposit	44,751,111.88	27,245,966.69
Refund of tax for exports	87,754,444.67	32,871,458.04
Balance with Greencool Companies	224,630,200.00	224,630,200.00
Other current account	65,886,322.41	57,521,050.57
Total	423,022,078.96	342,268,675.30

(5) Top five other receivables by debtor as at the end of the period

No.	Relationship with the Company	Amount	Ageing	Percentage of total other receivables (%)	Provision for bad debts Closing balance
Top 1	"Specific third party"	81,600,000.00	Over three years	19.29	
Top 2	Third party	59,294,980.23	Within three months	14.02	
Top 3	"Specific third party"	58,030,000.00	Over three years	13.72	58,030,000.00
Top 4	"Specific third party"	28,600,000.00	Over three years	6.76	
Top 5	"Specific third party"	21,400,000.00	Over three years	5.06	
Total		248,924,980.23	-	58.85	58,030,000.00

From October 2001 to July 2005, the Greencool Companies through the third Parties incurred a series of unusual cash inflows and outflows with the Company. The companies are collectively the "specific third party", please see note 11 (6) "The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following "Specific Third Party Companies" for details.

7. Inventories

(1) Classification of inventories

Item	Book value	Closing balance	
		Provision for declines in value	Carrying amount
Raw materials	609,145,133.73	31,735,734.13	577,409,399.60
Works in progress	258,956,246.38	9,514,899.24	249,441,347.14
Finished goods	2,611,182,335.06	40,172,592.73	2,571,009,742.33
Total	3,479,283,715.17	81,423,226.10	3,397,860,489.07

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

(1) Classification of inventories (continued)

Continued from above table

Item	Book value	Opening balance	
		Provision for declines in value	Carrying amount
Raw materials	391,186,649.59	33,088,574.25	358,098,075.34
Works in progress	246,660,429.33	9,109,050.07	237,551,379.26
Finished goods	2,099,019,876.15	34,624,334.37	2,064,395,541.78
Total	2,736,866,955.07	76,821,958.69	2,660,044,996.38

(2) Provision for declines in value of inventories

Item	Increase for the year			Decrease for the year		Closing balance
	Opening balance	Provision for the year	Others	Recovered or written-off	Others	
Raw materials	33,088,574.25	655,980.25		2,008,820.37		31,735,734.13
Works in progress	9,109,050.07	1,091,929.19		686,080.02		9,514,899.24
Finished goods	34,624,334.37	9,400,011.48		3,851,753.12		40,172,592.73
Total	76,821,958.69	11,147,920.92		6,546,653.51		81,423,226.10

(3) Basis of the provision for declines in value of inventories and reasons for the reversal or write-off during the year

Item	Basis of the provision for declines in value of inventories	Reasons for the write-off of provision for declines in value of inventories during the year
Raw materials	The lower of the cost and net realizable value	Removal due to sales and consumption for production
Works in progress		
Finished goods		

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Other current assets

Item	Closing balance	Opening balance
Wealth management products	1,080,000,000.00	1,300,000,000.00
Prepaid tax and tax deductible	431,399,110.00	357,920,598.92
Long-term prepaid expenses	39,918,019.32	20,845,252.33
Total	1,551,317,129.32	1,678,765,851.25

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Available-for-sale equity instruments	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00
Including: Measured at cost	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00
Total	3,900,000.00		3,900,000.00	3,900,000.00		3,900,000.00

Note to available-for-sale financial assets: All available-for-sale financial assets held by the Company are investments of equity interests in non-listed companies in PRC.

(2) Available-for-sale financial assets measured at cost as at the end of year

Investee	Book value				Impairment provision				Shareholding in the investee (%)	Cash dividend in current year
	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year		
Fujian Kelon Air-conditioner Sales Co., Ltd. ("Fujian Kelon")	100,000.00			100,000.00					2.00	
Hisense International Marketing Co., Ltd. ("Hisense International Marketing")	3,800,000.00			3,800,000.00					12.67	13,227,800.00
Total	3,900,000.00			3,900,000.00					-	13,227,800.00

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year				Closing balance	Closing balance of provision for impairment
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity	Declaration of cash dividend or profit		
I. Joint ventures									
Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd.	1,627,383,596.00			732,001,382.03		-3,967,882.48	229,565,000.00		2,125,852,095.55
Qingdao Hisense Electric Business Co., Ltd.		2,250,000.00		-970,241.48					1,279,758.52
Subtotal	1,627,383,596.00	2,250,000.00		731,031,140.55		-3,967,882.48	229,565,000.00		2,127,131,854.07
II. Associates									
Hisense Financial Holdings Co., Ltd.		240,000,000.00		4,913,770.50					244,913,770.50
Subtotal		240,000,000.00		4,913,770.50					244,913,770.50
III. Others									
Jiangxi Kelon Combine Electrical Appliances Co., Ltd.	11,000,000.00								11,000,000.00
Subtotal	11,000,000.00								11,000,000.00
Total	1,638,383,596.00	242,250,000.00		735,944,911.05		-3,967,882.48	229,565,000.00		2,383,045,624.57

- Note: 1. As Jiangxi Kelon Combine Electrical Appliances Co., Ltd., a subsidiary of the Company, has been declared in liquidation, it has not been included in the consolidated financial statements and impairment has been fully provided for the investment cost.
2. Qingdao Hisense Hitachi Air-Conditioning Systems Co., Ltd. was hereinafter referred to as "Hisense Hitachi".
3. The Company invested and established Hisense Financial Holdings Co., Ltd. (青島海信金融控股有限公司) (hereinafter "Hisense Financial Holdings") during the reporting period. The actual investment amount by the Company is RMB240,000,000.00, with a shareholding of 24%.
4. The Company invested and established Qingdao Hisense Electric Business Co., Ltd. (青島海信電子商務有限公司) (hereinafter "Hisense Electric Business") during the reporting period. The actual investment amount by the Company is RMB2,250,000.00, with a shareholding of 45%.
5. As at the end of the Reporting Period, all the joint ventures and associates of the Company were unlisted companies.

Including:

Item	Closing balance	Opening balance
Unlisted investments		
Equity method	2,372,045,624.57	1,627,383,596.00
Joint ventures	2,127,131,854.07	1,627,383,596.00
Associates	244,913,770.50	
Total	2,372,045,624.57	1,627,383,596.00

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Land use rights	Construction in progress	Total
I. Original carrying amount				
1. Opening balance	68,689,779.02			68,689,779.02
2. Increase for the year	1,072,986.05			1,072,986.05
(1) Transferred from construction in progress	1,072,986.05			1,072,986.05
3. Decrease for the year				
4. Closing balance	69,762,765.07			69,762,765.07
II. Accumulated depreciation and accumulated amortisation				
1. Opening balance	42,232,941.29			42,232,941.29
2. Increase for the year	2,532,385.39			2,532,385.39
(1) Provision made or amortisation	2,532,385.39			2,532,385.39
3. Decrease for the year				
4. Closing balance	44,765,326.68			44,765,326.68
III. Provision for impairment				
1. Opening balance				
2. Increase for the year				
3. Decrease for the year				
4. Closing balance				
IV. Carrying amount				
1. Carrying amount as at the end of the year	24,997,438.39			24,997,438.39
2. Carrying amount as at the beginning of the year	26,456,837.73			26,456,837.73

(2) Amount of investment properties without ownership certificates and reason

Item	Carrying amount	Reason for failure to obtain ownership certificates
Mee King Building	3,759,701.76	Due to historical reasons; in the process of application

(3) Depreciation expenses for 2017 amounted to RMB2,532,385.39, and depreciation expenses for 2016 amounted to RMB2,501,288.34.

(4) As at 31 December 2017, no investment properties were pledged by the Company.

(5) Among the investment properties, all buildings and structures are located in the Mainland China with useful lives ranging from 20 to 50 years.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets

(1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Moulds	Total
I. Original carrying amount						
1. Opening balance	2,488,605,430.26	3,346,184,728.48	417,327,624.28	34,679,430.84	1,603,598,175.55	7,890,395,389.41
2. Increase for the year	33,841,605.03	204,144,115.47	38,492,613.97	1,521,837.39	246,150,763.73	524,150,935.59
(1) Additions	22,587,640.83	75,727,967.61	27,562,952.18	814,401.50	112,194,858.38	238,887,820.50
(2) Transfer from construction in progress	11,253,964.20	128,416,147.86	10,929,661.79	707,435.89	133,955,905.35	285,263,115.09
3. Decrease for the year	271,616,666.32	273,977,052.74	17,310,090.07	737,719.91	93,575,917.66	657,217,446.70
(1) Disposal or retirement	271,616,666.32	273,977,052.74	17,310,090.07	737,719.91	93,575,917.66	657,217,446.70
4. Closing balance	2,250,830,368.97	3,276,351,791.21	438,510,148.18	35,463,548.32	1,756,173,021.62	7,757,328,878.30
II. Accumulated depreciation						
1. Opening balance	1,076,424,222.00	1,703,167,558.53	293,712,746.83	19,789,629.12	1,151,508,920.62	4,244,603,077.10
2. Increase for the year	97,418,104.97	243,488,984.94	34,914,937.90	3,875,008.62	292,744,334.14	672,441,370.57
(1) Provision made	97,418,104.97	243,488,984.94	34,914,937.90	3,875,008.62	292,744,334.14	672,441,370.57
3. Decrease for the year	217,265,089.82	238,434,703.04	12,909,869.27	533,665.01	92,940,006.18	562,083,333.32
(1) Disposal or retirement	217,265,089.82	238,434,703.04	12,909,869.27	533,665.01	92,940,006.18	562,083,333.32
4. Closing balance	956,577,237.15	1,708,221,840.43	315,717,815.46	23,130,972.73	1,351,313,248.58	4,354,961,114.35
III. Provision for impairment						
1. Opening balance	13,177,187.35	135,674,663.61	2,608,957.93	318,608.61	12,287,242.53	164,066,660.03
2. Increase for the year	415,144.70	3,073,699.21				3,488,843.91
(1) Provision made	415,144.70	3,073,699.21				3,488,843.91
3. Decrease for the year		16,357,196.29	355,419.72		283,868.30	16,996,484.31
(1) Disposal or retirement		16,357,196.29	355,419.72		283,868.30	16,996,484.31
4. Closing balance	13,592,332.05	122,391,166.53	2,253,538.21	318,608.61	12,003,374.23	150,559,019.63
IV. Carrying amount						
1. Carrying amount as at the end of the year	1,280,660,799.77	1,445,738,784.25	120,538,794.51	12,013,966.98	392,856,398.81	3,251,808,744.32
2. Carrying amount as at the beginning of the year	1,399,004,020.91	1,507,342,506.34	121,005,919.52	14,571,193.11	439,802,012.40	3,481,725,652.28

For 2017, the fixed assets transferred from construction in progress amounted to RMB285,263,115.09; for 2016, the fixed assets transferred from construction in progress amounted to RMB257,230,048.13.

(2) Depreciation expenses for 2017 amounted to RMB672,441,370.57, and depreciation expenses for 2016 amounted to RMB662,977,799.11.

(3) As at the end of the year, no fixed asset was idle transitorily.

(4) As at the end of the year, no fixed asset was held under finance lease.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

(5) The rent out fixed asset under operating lease

Item	Closing carrying amount
Buildings and structures	37,510,845.17
Total	37,510,845.17

Note: Part of the above buildings and structures were rent out, which does not fulfill the definition of investment properties.

(6) As at the end of the year, no fixed asset was held for sale.

(7) As at the end of the year, fixed asset which has not obtained the ownership certificate

Item	Carrying amount	Reason for failure to obtain ownership certificates
Buildings and structures	269,517,490.00	Achieved scheduled availability and were reclassified as fixed assets, the issuance of ownership certificate is in progress

(8) As at the end of the year, no building or structure was pledged.

13. Constructions in progress

(1) Breakdown of constructions in progress

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Net carrying amount	Book value	Impairment provision	Net carrying amount
MES system	6,176,994.48		6,176,994.48	1,464,230.79		1,464,230.79
Hisense Mould CNC machining center				14,449,245.30		14,449,245.30
Technology transformation of washing machine line equipment of Shandong Refrigerator	4,172,307.77		4,172,307.77	141,777.77		141,777.77
New laboratory of Shandong Air-conditioning				2,779,709.64		2,779,709.64
Upgrade and transformation of Shunde Freezer	33,187,341.21		33,187,341.21			
Upgrade and transformation project of Shunde Refrigerator	14,785,159.64		14,785,159.64			
Production line of Shangqiu Kelon	7,770,917.67	7,770,917.67		7,770,917.67	7,770,917.67	
Others	90,040,137.70		90,040,137.70	54,107,494.77		54,107,494.77
Total	156,132,858.47	7,770,917.67	148,361,940.80	80,713,375.94	7,770,917.67	72,942,458.27

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Constructions in progress (continued)

(2) Movements in key constructions in progress

Name of project	Budget	Opening balance	Increase for the year	Transferred to fixed assets	Other Decrease	% Contribution in budget	Progress	Source of funding	Closing balance
MES system	20,319,053.34	1,464,230.79	6,176,994.48	1,464,230.79		71.70	Not completed	Self-funding	6,176,994.48
Hisense Mould CNC machining center	22,250,174.59	14,449,245.30	7,800,929.29	22,250,174.59		100.00	Completed	Self-funding	
Technology transformation of washing machine line equipment of Shandong Refrigerator	19,736,144.51	141,777.77	5,376,144.51	1,345,614.51		93.15	Not completed	Self-funding	4,172,307.77
New laboratory of Shandong Air-conditioning	3,791,975.06	2,779,709.64		2,779,709.64		100.00	Completed	Self-funding	
Upgrade and transformation of Shunde Freezer	57,132,200.00		41,956,571.95	8,769,230.74		73.44	Not completed	Self-funding	33,187,341.21
Upgrade and transformation project of Shunde Refrigerator	34,609,272.40		14,785,159.64			42.72	Not completed	Self-funding	14,785,159.64
Production line of Shangqiu Kelon		7,770,917.67					Pending retirement	Self-funding	7,770,917.67
Others		54,107,494.77	306,329,648.61	248,654,154.82	21,742,850.86				90,040,137.70
Total		80,713,375.94	382,425,448.48	285,263,115.09	21,742,850.86				156,132,858.47

Note: All constructions in progress of the Company were self-financed, without capitalisation of borrowing cost and interest.

(3) As at the end of the year, the Company had made no provision for constructions in progress.

14. Intangible assets

(1) Particulars of intangible assets

Item	Land use rights	Trademarks	Know-how	Others	Total
I. Original carrying amount					
1. Opening balance	894,831,107.10	524,409,198.95	73,100,447.88	101,867,333.07	1,594,208,087.00
2. Increase for the year	1,660,008.30			18,993,927.11	20,653,935.41
(1) Additions	1,660,008.30			18,993,927.11	20,653,935.41
3. Decrease for the year	46,265,377.07				46,265,377.07
(1) Disposal or retirement	46,265,377.07				46,265,377.07
4. Closing balance	850,225,738.33	524,409,198.95	73,100,447.88	120,861,260.18	1,568,596,645.34
II. Accumulated amortisation					
1. Opening balance	260,115,835.29	134,130,255.55	67,688,219.70	57,241,428.44	519,175,738.98
2. Increase for the year	16,181,947.23		3,607,918.91	14,240,777.49	34,030,643.63
(1) Provision made	16,181,947.23		3,607,918.91	14,240,777.49	34,030,643.63
3. Decrease for the year	38,635,535.83				38,635,535.83
(1) Disposal or retirement	38,635,535.83				38,635,535.83
4. Closing balance	237,662,246.69	134,130,255.55	71,296,138.61	71,482,205.93	514,570,846.78
III. Provision for impairment					
1. Opening balance	50,012,843.19	286,061,116.40		1,616,452.75	337,690,412.34
2. Increase for the year					
(1) Provision made					
3. Decrease for the year					
(1) Disposal or retirement					
4. Closing balance	50,012,843.19	286,061,116.40		1,616,452.75	337,690,412.34
IV. Carrying amount					
1. Carrying amount as at the end of the year	562,550,648.45	104,217,827.00	1,804,309.27	47,762,601.50	716,335,386.22
2. Carrying amount as at the beginning of the year	584,702,428.62	104,217,827.00	5,412,228.18	43,009,451.88	737,341,935.68

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Intangible assets (continued)

(2) Notes to intangible assets:

- (i) Amortization of intangible assets amounted to RMB34,030,643.63 for 2017, compared to that of RMB31,920,484.24 for 2016.
- (ii) As at the end of the year, no land use rights were pledged.
- (iii) Trademarks were not amortized due to indefinite useful lives, and no provision was made for impairment of trademarks after tested for impairment as at the end of the year.

15. Long-term prepaid expenses

Item	Opening balance	Increase for the year	Amortization for the year	Other deductions	Closing balance	Reason for other deductions
Long-term prepaid expenses	5,158,532.22	3,357,284.63	4,788,141.47		3,727,675.38	
Total	5,158,532.22	3,357,284.63	4,788,141.47		3,727,675.38	

16. Deferred tax assets/deferred tax liabilities

(1) Breakdown of deferred tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of assets	115,233,289.38	26,877,077.44	105,636,306.58	25,008,846.91
Accrued expenses	401,527,220.72	62,295,335.79	426,660,559.68	65,800,330.12
Others	61,560,122.70	15,232,199.94	28,200,966.23	6,453,543.49
Total	578,320,632.80	104,404,613.17	560,497,832.49	97,262,720.52

(2) Breakdown of deferred tax liabilities

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Accelerated depreciation	7,498,524.25	1,124,778.64	4,370,599.07	655,589.86
Financial assets held-for-trading	82,670.52	12,400.58	342,700.09	51,405.01
Total	7,581,194.77	1,137,179.22	4,713,299.16	706,994.87

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Deferred tax assets/deferred tax liabilities (continued)

(3) Breakdown of unrecognized deferred tax assets

Item	Closing balance	Opening balance
Deductible temporary difference	1,258,525,423.33	1,473,462,034.60
Deductible tax loss	588,982,971.19	1,095,453,140.50
Total	1,847,508,394.52	2,568,915,175.10

(4) The deductible tax losses for unrecognized deferred tax assets will expire in following timeframe

Year	Closing balance	Opening balance	Remark
2017		35,060,859.68	
2018	39,298,092.37	39,298,092.37	
2019	8,953,494.74	168,480,401.88	
2020	115,217,425.50	378,607,027.42	
2021	189,147,931.60	418,791,155.09	
2022	163,065,244.14		
Infinite	73,300,782.84	55,215,604.06	
Total	588,982,971.19	1,095,453,140.50	

17. Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Financial liabilities held-for-trading	373,723.35	
Including: Derivative financial liabilities	373,723.35	
Total	373,723.35	

Note to financial liabilities held-for-trading:

It represented mainly the outstanding forward exchange settlement and sale contracts entered into by the Company and banks, which were recognized as the financial assets or liabilities held-for-trading based on the difference between the quoted price of the outstanding forward contracts and the forward rates as at the end of the year.

18. Notes payable

Category	Closing balance	Opening balance
Bank acceptance notes	3,168,085,830.99	2,874,368,029.91
Commercial acceptance notes	2,972,939,879.23	2,353,486,711.16
Total	6,141,025,710.22	5,227,854,741.07

Note: There were no outstanding notes payable due as at the end of the year.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Accounts payable

(1) Ageing analysis of accounts payable

Ageing analysis of accounts payable based on the date of recognition is as follows:

Ageing	Closing balance	Opening balance
Within one year	4,127,751,339.22	4,228,675,470.71
Over one year	111,085,502.22	138,592,927.38
Total	4,238,836,841.44	4,367,268,398.09

- (2) As at 31 December 2017, accounts payable with ageing of over one year amounted to RMB111,085,502.22 (31 December 2016: RMB138,592,927.38), which represented mainly raw material payable and was not settled yet.

20. Advances from customers

(1) Aging analysis of advances from customers

Ageing	Closing balance	Opening balance
Within one year	742,741,326.19	761,276,548.71
Over one year	48,520,918.92	70,502,243.74
Total	791,262,245.11	831,778,792.45

- (2) As at 31 December 2017, advances from customers with ageing of over one year amounted to RMB48,520,918.92 (31 December 2016: RMB70,502,243.74), which represented advances from customers for sale of goods and were not recognised as revenue yet as the relevant products had not been sold.

21. Compensations payable to employee

(1) Compensations payable to employee are listed as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Short-term compensations	331,528,641.94	2,655,334,623.63	2,666,626,222.59	320,237,042.98
2. Post-employment benefits – defined contribution plans	2,675,794.64	195,033,521.42	194,526,743.65	3,182,572.41
3. Termination benefits		4,450,515.59	4,450,515.59	
Total	334,204,436.58	2,854,818,660.64	2,865,603,481.83	323,419,615.39

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Compensations payable to employee (continued)

(2) Short-term compensations are as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Wages and salaries, bonuses, allowances and subsidies	323,225,964.01	2,314,098,646.26	2,324,769,500.34	312,555,109.93
2. Staff welfare	3,263,494.92	138,042,431.84	138,496,560.37	2,809,366.39
3. Social insurance	1,058,257.96	105,111,447.53	105,151,142.81	1,018,562.68
Including: Medical insurance	796,869.48	89,297,421.36	89,353,504.38	740,786.46
Work-related injury insurance	163,609.71	7,376,429.29	7,327,480.92	212,558.08
Maternity insurance	97,778.77	8,437,596.88	8,470,157.51	65,218.14
4. Housing provident funds	1,587,583.11	78,549,031.26	78,951,711.48	1,184,902.89
5. Labour union funds and employee education funds	2,393,341.94	19,533,066.74	19,257,307.59	2,669,101.09
Total	331,528,641.94	2,655,334,623.63	2,666,626,222.59	320,237,042.98

(3) Defined contribution plans are as follows

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
1. Basic pension insurance	2,176,630.16	185,966,240.92	185,614,902.59	2,527,968.49
2. Unemployment insurance	499,164.48	9,067,280.50	8,911,841.06	654,603.92
Total	2,675,794.64	195,033,521.42	194,526,743.65	3,182,572.41

Note to compensations payable to employee:

- (1) There were no defaulted payables included in compensations payable to employee.
- (2) Arrangements in respect of expected payout time and amount for employee compensations: calculated in the current month and paid in the following month.

22. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	81,072,908.93	82,246,757.61
Enterprise income tax	96,643,432.48	68,621,231.37
Individual Income Tax	5,347,376.88	4,639,480.50
City maintenance and construction tax	7,975,848.05	7,632,545.67
Real estate tax	9,959,715.41	11,990,480.66
Land use tax	7,536,241.24	5,734,020.04
Educational surcharges	5,716,255.91	5,447,785.36
Others	51,311,762.96	36,607,620.66
Total	265,563,541.86	222,919,921.87

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Other payables

(1) Other payables by nature

Item	Closing balance	Opening balance
Current account	1,255,703,007.32	1,150,735,199.84
Deposit and margin	335,897,718.01	366,895,575.76
Payment for project and equipment	86,858,946.40	113,307,159.32
Amount payable to Greencool Companies and specific third party	30,766,425.03	30,766,425.03
Total	1,709,226,096.76	1,661,704,359.95

(2) Significant other payables with ageing of over 1 year

Name	Closing balance	Reason for unsettlement or carrying forward
Zhuhai Longjia	17,766,425.03	Current account with specific third party
Jiangxi Greencool	13,000,000.00	Balance with Greencool Companies

24. Other current liabilities

Item	Closing balance	Opening balance	Reasons for the balance
Installation fees	345,046,680.30	295,026,292.70	Installation fee provided for but not yet paid in respect of goods sold
Sales discounts	112,056,773.38	157,511,860.42	Incurred but not yet settled
Others	182,244,126.72	263,302,542.45	Incurred but not yet settled
Total	639,347,580.40	715,840,695.57	

25. Provisions

Item	Closing balance	Opening balance
Pending litigation	5,795,550.00	5,377,637.34
Provision for warranties*	307,505,595.64	285,465,078.07
Others	23,790,000.00	23,790,000.00
Total	337,091,145.64	314,632,715.41

* Provision for warranties represented the estimated security deposit for product quality. During the warranty period, the Company will offer a free warranty service to the customers concerned. Based on the industry's experience and historic data, the warranty costs were calculated and provided based on the remaining years of warranty offered and the average repair fee per unit.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Government grants

(1) Details of the government grant recognized at the beginning of the year

Items	Amount	Related to assets		Related to revenue			Actually received or not
		Deferred income	Book value of assets that are written down	Deferred income	Other income	Non-operating income	
Transformation project on system integration technology of green supply chain of freezers	11,520,000.00	11,520,000.00					Yes
Other government grants related to assets	16,065,116.11	16,065,116.11					Yes
Refund of value-added tax	89,375,758.70			89,375,758.70			Yes
Other government grants related to daily operation	26,848,168.79			26,848,168.79			Yes
Government grants not related to daily operation	115,131,935.89					115,131,935.89	Yes
Total	-	27,585,116.11		116,223,927.49		115,131,935.89	-

Note: There is no outstanding government grants to be received for the year.

(2) Details of government grants to be included in the profit or loss for the year

Item	Related to assets/revenue	Included in other income	Included in non-operating income	Written down of costs
Transformation project on system integration technology of green supply chain of freezers	Related to assets			
Other government grants related to assets	Related to assets	9,259,492.71		
Refund of value-added tax	Related to assets	89,375,758.70		
Other government grants related to daily operation	Related to assets	26,848,168.79		
Government grants not related to daily operation	Related to assets		115,131,935.89	
Total	-	125,483,420.20	115,131,935.89	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Deferred income

Item	Closing balance	Opening balance
Deferred income	73,013,121.41	54,687,498.01
Total	73,013,121.41	54,687,498.01

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance	Reason for occurrence
Government grants	54,687,498.01	27,585,116.11	9,259,492.71	73,013,121.41	Amortization of government grants
Total	54,687,498.01	27,585,116.11	9,259,492.71	73,013,121.41	-

Of which, items relating to government grants:

Liabilities	Opening balance	New grants received during the year	Amount included in other income during the year	Other changes	Closing balance	Related to assets/revenue
State debenture projects for technical advancement and industry upgrade	21,450,000.00				21,450,000.00	Related to assets
Technology reform project for design and production of high-precision smart moulds	1,586,666.67		280,000.00		1,306,666.67	Related to assets
Production technology reform project for energy-saving household SBS large-size refrigerator	562,500.00		450,000.00		112,500.00	Related to assets
Transformation project on system integration technology of green supply chain of freezers		11,520,000.00			11,520,000.00	Related to assets
Others	31,088,331.34	16,065,116.11	8,529,492.71		38,623,954.74	Related to assets
Total	54,687,498.01	27,585,116.11	9,259,492.71		73,013,121.41	

28. Share capital

Categories of shares	Opening balance	Change for the year (+,-)					Subtotal	Closing balance
		Issue of new shares	Bonus issue	Conversion from reserve	Others			
Restricted floating shares subject to terms of lock-up	1,111,635.00				-11,138.00	-11,138.00	1,100,497.00	
Including: Other domestic shares	1,111,635.00				-11,138.00	-11,138.00	1,100,497.00	
Including: Shares held by domestic natural persons	1,111,635.00				-11,138.00	-11,138.00	1,100,497.00	
Unrestricted floating shares not subject to terms of lock-up	1,361,613,735.00				11,138.00	11,138.00	1,361,624,873.00	
Including: RMB ordinary shares	902,023,927.00				11,138.00	11,138.00	902,035,065.00	
Overseas listed foreign shares	459,589,808.00						459,589,808.00	
Total number of shares	1,362,725,370.00						1,362,725,370.00	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Capital reserve

(1) Changes in capital reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Share premium	1,974,063,685.98		2,505.05	1,974,061,180.93
Other capital reserve	118,798,257.91		3,967,882.48	114,830,375.43
Total	2,092,861,943.89		3,970,387.53	2,088,891,556.36

(2) Notes to change in capital reserve:

The decrease in other capital reserve during the year was mainly due to the changes in other interests of Hisense Hitachi.

30. Other comprehensive income

Item	Opening balance	Amount incurred in the year					Closing balance
		Amount before income tax for the year	Less: Amount included in other comprehensive income in previous period transferred to profit or loss in current period	Less: income tax expense	Attributable to parent after tax	Attributable to minority interest after tax	
1. Other comprehensive income that would not be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that would not be reclassified into profit or loss under equity method							
2. Other comprehensive income that would be reclassified subsequently to profit or loss Including: Share of other comprehensive income of investee that would be reclassified into profit or loss under equity method	14,274,706.17	-3,748,693.52	2,956,837.76		-6,904,578.31	199,047.03	7,370,127.86
Difference arising from translation of financial statements presented in foreign currency	14,274,706.17	-3,748,693.52	2,956,837.76		-6,904,578.31	199,047.03	7,370,127.86
Total other comprehensive income	14,274,706.17	-3,748,693.52	2,956,837.76		-6,904,578.31	199,047.03	7,370,127.86

31. Surplus reserve

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Statutory surplus reserve	313,689,564.15	146,650,122.16		460,339,686.31
Total	313,689,564.15	146,650,122.16		460,339,686.31

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Undistributed profits

Item	Amount for the year	Amount for previous year
Undistributed profits at the end of the previous year before adjustment	1,083,914,592.96	273,658,518.74
Adjustment for total undistributed profits as at the beginning of the year (+ for increase and-for decrease)		
Undistributed profits as at the beginning of the year after adjustment	1,083,914,592.96	273,658,518.74
Add: Net profits attributable to the shareholders of the parent in current year	1,997,530,073.54	1,087,732,130.38
Less: Appropriation of statutory surplus reserve	146,650,122.16	73,067,250.66
Dividends payable on ordinary shares	408,817,611.00	204,408,805.50
Undistributed profits at the end of the year	2,525,976,933.34	1,083,914,592.96

33. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	30,430,053,508.06	24,670,924,400.24
Revenue from other operations	3,057,536,879.39	2,059,295,096.83
Total operating revenue	33,487,590,387.45	26,730,219,497.07
Costs of principal operations	24,038,279,128.40	18,555,853,421.38
Costs of other operations	2,931,551,824.93	1,930,799,633.97
Total operating costs	26,969,830,953.33	20,486,653,055.35

(2) Principal operations (by products)

Products	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
1. Refrigerators and washing machines	14,110,925,211.40	11,366,758,054.95	12,778,722,120.61	9,609,817,899.92
2. Air-conditioners	14,587,570,871.00	11,283,422,898.42	10,380,981,134.10	7,805,544,151.26
3. Others	1,731,557,425.66	1,388,098,175.03	1,511,221,145.53	1,140,491,370.20
Total	30,430,053,508.06	24,038,279,128.40	24,670,924,400.24	18,555,853,421.38

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Operating revenue and operating costs (continued)

(3) Principal operations (by regions)

Region	Amount for the year		Amount for previous year	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Domestic	20,575,313,709.67	14,880,565,691.25	16,208,992,881.10	11,404,909,593.01
Overseas	9,854,739,798.39	9,157,713,437.15	8,461,931,519.14	7,150,943,828.37
Total	30,430,053,508.06	24,038,279,128.40	24,670,924,400.24	18,555,853,421.38

(4) Operating revenue from the top five customers of the Company

The percentage of top five customers of the Company to the total revenue from principal operation for the year is 41.28%, of which, the percentage of top one customer is 15.26%.

34. Tax and surcharges

Item	Amount for the year	Amount for previous year
City maintenance and construction tax	74,163,495.07	66,321,735.57
Education surcharges	53,913,808.24	46,600,787.46
Real estate tax	26,174,438.29	15,527,354.68
Land use tax	15,801,748.27	8,299,101.83
Others	155,247,680.64	86,045,549.11
Total	325,301,170.51	222,794,528.65

Note: For details of the standard charge rate of various taxes and surcharges, please see note 5 "Taxation".

35. Sales expenses

Item	Amount for the year	Amount for previous year
Sales expenses	4,771,756,662.02	4,640,737,321.53
Total	4,771,756,662.02	4,640,737,321.53

36. Management expenses

Item	Amount for the year	Amount for previous year
Management expenses	1,044,734,733.11	946,745,876.45
Total	1,044,734,733.11	946,745,876.45

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Financial expenses

Item	Amount for the year	Amount for previous year
Interest expenses*		7,955,285.77
Less: Interest incomes	28,856,412.64	12,774,479.24
Exchange gain or loss	32,092,103.57	-88,442,403.71
Others	6,541,902.83	7,272,533.77
Total	9,777,593.76	-85,989,063.41

* Interest expenses for 2016 were wholly interests on bank borrowings of which the last term of repayment is within five years.

38. Impairment losses on assets

Item	Amount for the year	Amount for previous year
1. Bad debt loss	25,807,453.99	6,055,136.93
2. Decline in value of inventories	8,748,070.36	-12,667,279.80
3. Impairment loss on fixed assets	3,488,843.91	2,176,670.16
Total	38,044,368.26	-4,435,472.71

39. Gain arising from changes in fair value

Sources of gain arising from changes in fair value	Amount for the year	Amount for previous year
Financial assets at fair value through profit or loss	-9,612,399.52	9,695,070.04
Including: Gain from changes in fair value of derivative financial instruments	-9,612,399.52	9,695,070.04
Financial liabilities at fair value through profit or loss	-373,723.35	9,767,732.75
Including: Gain from changes in fair value of derivative financial instruments	-373,723.35	9,767,732.75
Total	-9,986,122.87	19,462,802.79

40. Investment gain

Item	Amount for the year	Amount for previous year
Gain from available-for-sale financial assets during holding period	13,227,800.00	6,004,000.00
Gain from long-term equity investment under the equity method	735,944,911.05	534,444,157.61
Gain from disposal of long-term equity investment	789,851,622.56	-27,416,905.27
Gain from disposal of financial assets at fair value through profit or loss	-2,554,083.63	-3,007,956.96
Gain from investment in wealth management products	25,927,396.48	12,055,845.19
Total	1,562,397,646.46	522,079,140.57

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Investment gain(continued)

Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

Gain from long-term equity investment under the equity method

Investee	Amount for the year	Amount for previous year
Hisense-Zhejiang Electrical Co., Ltd. (hereinafter “Zhejiang Hisense”)		-36,319,775.98
Attend Logistics Co., Ltd. (hereinafter “Attend ”)		-83,804.31
Hisense Hitachi	732,001,382.03	570,847,737.90
Hisense Financial Holdings	4,913,770.50	
Hisense Electric Business	-970,241.48	
Total	735,944,911.05	534,444,157.61

Note: The gains from equity investment under the equity method of the Company for the current period were all generated from non-listed investments.

41. Gains on disposal of assets

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gains on disposal of fixed assets	9,318,054.13	14,505,722.30	9,318,054.13
Losses on disposal of fixed assets	-5,181,874.48	-1,794,066.94	-5,181,874.48
Total	4,136,179.65	12,711,655.36	4,136,179.65

42. Other income

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Refund of value-added tax	89,375,758.70		
Other government grants related to daily operation	36,107,661.50		36,107,661.50
Total	125,483,420.20		36,107,661.50

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Non-operating income

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Gain from scrapping of non-current assets	2,077,154.44	1,436,140.66	2,077,154.44
Government grants not related to daily operation of the enterprise	115,131,935.89	169,267,089.59	115,131,935.89
Others	120,483,606.80	57,883,658.71	120,483,606.80
Total	237,692,697.13	228,586,888.96	237,692,697.13

44. Non-operating expenses

Item	Amount for the year	Amount for previous year	Amount included in non-recurring profit or loss of the current year
Loss on scrapping of non-current assets	8,330,147.77	2,378,109.79	8,330,147.77
Others	7,247,204.65	33,834,157.88	7,247,204.65
Total	15,577,352.42	36,212,267.67	15,577,352.42

45. Income tax expense

(1) Income tax expense statement

Item	Amount for the year	Amount for previous year
Current income tax expenses	187,778,829.75	122,560,074.53
Including: PRC Enterprise income tax	177,445,449.35	122,560,074.53
Hong Kong profit tax	10,333,380.40	
Deferred income tax expenses	-6,711,708.30	6,187,622.99
Total	181,067,121.45	128,747,697.52

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45. Income tax expense *(continued)*

(2) Reconciliation of accounting profit and income tax expenses is as follows:

Item	Amount for the year
Total profits	2,232,291,374.61
Income tax expense calculated at statutory (or applicable) tax rates	558,072,843.65
Effect of application of different tax rate to certain subsidiaries	-44,356,390.30
Adjustment to income tax in previous year	28,615.76
Effect of non-taxable income	-226,613,463.51
Effect of non-deductible cost, expense and loss	4,946,716.84
Effect of utilization of deductible losses unrecognized as deferred tax assets in previous period	-176,819,601.98
Effect of deductible temporary difference or deductible loss unrecognized as deferred tax assets in current period	105,819,781.92
Changes in opening balance of deferred tax assets/liabilities arising from changes in tax rate	-40,011,380.93
Effect of super deduction of research and development expense	
Others	
Income tax expense	181,067,121.45

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

46. Calculation of basic and diluted earnings per share

Item		Amount for the year	Amount for previous year
Net profits attributable to ordinary shareholders of the Company during the reporting period	P1	1,997,530,073.54	1,087,732,130.38
Non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	F	984,723,118.52	89,808,253.79
Net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company during the reporting period	P2=P1-F	1,012,806,955.02	997,923,876.59
Effect of dilutive events on net profits attributable to ordinary shareholders of the Company	P3		
Effect of dilutive events on net profits after non-recurring profit and loss attributable to ordinary shareholders of the Company	P4		
Weighted average number of outstanding ordinary shares	S	1,362,725,370.00	1,362,725,370.00
Add: Increase in the weighted average number of ordinary shares assuming full conversion of dilutive potential ordinary shares into outstanding ordinary shares	X1		
Weighted average number of ordinary shares used for calculation of diluted earnings per share	X2=S+X1	1,362,725,370.00	1,362,725,370.00
Basic earnings per share attributable to ordinary shareholders of the Company	Y1=P1/S	1.47	0.80
Basic earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y2=P2/S	0.74	0.73
Diluted earnings per share attributable to ordinary shareholders of the Company	Y3=(P1+P3)/X2	1.47	0.80
Diluted earnings per share attributable to ordinary shareholders of the Company after non-recurring profit and loss	Y4=(P2+P4)/X2	0.74	0.73

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Other comprehensive income

Please see note 6(30) Other comprehensive income for details.

48. Notes to cash flows statement

(1) Other cash receipt related to operating activities

Item	Amount for the year	Amount for previous year
Interest incomes	28,705,212.64	12,774,479.24
Government grants	118,635,200.01	81,519,779.67
Others	447,705,963.84	559,489,009.21
Total	595,046,376.49	653,783,268.12

(2) Other cash payment related to operating activities

Item	Amount for the year	Amount for previous year
Cash payments for general and administrative expenses	503,518,169.52	474,192,089.82
Cash payments for sales expenses	3,042,806,184.71	2,908,313,109.71
Bank charges	27,664,434.48	11,926,055.07
Others	886,634,321.82	587,741,443.37
Total	4,460,623,110.53	3,982,172,697.97

(3) Other cash receipt related to investing activities

Item	Amount for the year	Amount for previous year
Disposal of wealth management products upon maturity	3,930,000,000.00	1,961,000,000.00
Net cash receipts from acquisition of subsidiaries		16,330,804.98
Total	3,930,000,000.00	1,977,330,804.98

(4) Other cash payment related to investing activities

Item	Amount for the year	Amount for previous year
Acquisition of wealth management products	3,710,000,000.00	3,061,000,000.00
Total	3,710,000,000.00	3,061,000,000.00

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Notes to cash flows statement (continued)

(5) Other cash payments related to financing activities

Item	Amount for the year	Amount for previous year
Security deposit	609,526,216.71	1,421,125,133.66
Acquisition of minority interests in subsidiaries		69,020,000.00
Total	609,526,216.71	1,490,145,133.66

49. Supplementary information to cash flows statement

(1) Supplementary information to cash flows statement

Supplementary information	Amount for the year	Amount for previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,051,224,253.16	1,141,593,773.70
Add: Provision for assets impairment	38,044,368.26	-4,435,472.71
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	674,973,755.96	665,479,087.45
Amortization of intangible assets	34,030,643.63	31,920,484.24
Amortization of long-term prepaid expenses	4,788,141.47	6,699,276.77
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain denoted in "-")	-4,136,179.65	-11,769,686.23
Loss on retirement of fixed assets (Gain denoted in "-")	6,252,993.33	
Loss on change in fair value (Gain denoted in "-")	9,986,122.87	-19,462,802.79
Financial expenses (Gain denoted in "-")		7,955,285.77
Investment loss (Gain denoted in "-")	-1,562,397,646.46	-522,079,140.57
Decrease in deferred tax assets (Increase denoted in "-")	-7,141,892.65	5,828,338.25
Increase in deferred tax liabilities (Decrease denoted in "-")	430,184.35	359,284.74
Decrease in inventories (Increase denoted in "-")	-742,416,760.10	-376,675,863.10
Decrease in operating receivables (Increase denoted in "-")	-553,468,423.54	-1,784,506,636.00
Increase in operating payables (Decrease denoted in "-")	504,879,015.68	3,785,024,055.73
Others		
Net cash flows from operating activities	455,048,576.31	2,925,929,985.25
2. Significant investment and financing activities not involving cash receipts and payments:		
Liabilities converted into equity		
Convertible company debentures due within one year		
Fixed assets under finance leases		
3. Net movement in cash and cash equivalents:		
Cash at the end of the period	952,318,970.66	794,984,893.88
Less: Cash at the beginning of the period	794,984,893.88	1,012,159,146.17
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	157,334,076.78	-217,174,252.29

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Supplementary information to cash flows statement (continued)

(2) Net cash paid for acquisition of subsidiaries during the year

Item	Amount
Cash and cash equivalents received for the year in relation to the disposal of subsidiaries for the year	862,560,000.00
Including: Foshan City Shunde District Baohong Property Management Company Limited (佛山市順德區寶弘物業管理有限公司)	862,560,000.00
Less: Cash and cash equivalents held by subsidiaries at the date of loss of control	7,963.04
Including: Foshan City Shunde District Baohong Property Management Company Limited	7,963.04
Add: Cash and cash equivalents received for the year in relation to the disposal of subsidiaries in the previous period	
Net cash received for the disposal of subsidiaries	862,552,036.96

(3) Details of cash and cash equivalents

Item	Amount for the year	Amount for previous year
1. Cash	952,318,970.66	794,984,893.88
Including: Cash on hand	7,953.54	
Bank deposits that are readily available for payment	952,311,017.12	794,984,893.88
Other cash at bank and on hand that are readily available for payment		
2. Cash equivalents		
Including: Bond investments due within three months		
3. Cash and cash equivalents as at the end of the year	952,318,970.66	794,984,893.88
Including: Cash and cash equivalents of the parent or subsidiaries subject to restrictions on use		

50. Assets with limited ownership or use rights

Item	Closing carrying amount	Reason for limitation
Cash at bank and on hand	2,043,709,224.23	As secured amount
Notes receivable	1,829,074,377.75	As collaterals for bank acceptance notes
Total	3,872,783,601.98	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Monetary items in foreign currencies

(1) Monetary items in foreign currencies

Item	Closing balance of foreign currency	Translation rate	Closing balance denominated in RMB
Cash at bank and on hand			
Including: USD	50,004,285.88	6.5342	326,738,004.80
EUR	1,121,033.90	7.8023	8,746,642.80
HKD	4,852,977.62	0.83591	4,056,652.52
GBP	55,562.42	8.7792	487,793.60
Accounts receivable			
Including: USD	31,202,572.02	6.5342	203,883,846.09
EUR	6,494,260.63	7.8023	50,670,169.71
Other receivables:			
Including: USD	50,000.00	6.5342	326,710.00
EUR	47,500.26	7.8023	370,611.28
HKD	8,389.00	0.83591	7,012.45
Accounts payable			
Including: USD	3,247,373.68	6.5342	21,218,989.10
EUR	481,573.45	7.8023	3,757,380.53
Other payables:			
Including: USD	3,006,337.97	6.5342	19,644,013.56
EUR	215,958.55	7.8023	1,684,973.39

(2) Overseas operating entities

Name	Principal place of business	Functional currency	Whether there is change of functional currency
Kelon International Incorporation	Hong Kong	HKD	No
Pearl River Electric Refrigerator Co., Ltd.	Hong Kong	HKD	No
Kelon Development Co., Ltd.	Hong Kong	HKD	No
Hisense Mould (Deutschland) GmbH	Germany	EUR	No

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52. Segment information

The Group manages its business by divisions which are organized by a mixture of both business lines and geographical locations. For the purpose of resource allocation and performance assessment, the management manages the operating results of each business segment separately, and the segment results are assessed based on the profits of the reporting segments.

(1) Segment profit or loss and assets and liabilities

Amount for current period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	14,110,925,211.40	14,587,570,871.00	1,731,557,425.66		30,430,053,508.06
2. Revenue from inter-segment transactions			1,532,162,384.83	-1,532,162,384.83	
3. Gain from investment in associates and joint ventures	-485,120.74	731,516,261.29	4,913,770.50		735,944,911.05
4. Depreciation and amortization	397,085,954.36	213,982,047.99	97,936,397.24		709,004,399.59
5. Gain arising from changes in fair value	-4,716,426.32	-4,716,426.32	-553,270.23		-9,986,122.87
6. Impairment losses on assets	3,420,192.57	31,900,224.52	2,723,951.17		38,044,368.26
7. Total profit (losses)	77,095,307.72	1,249,018,672.67	948,188,500.17	-42,011,105.95	2,232,291,374.61
8. Total assets	16,371,138,556.05	11,497,620,081.72	3,809,305,882.95	-10,204,397,698.00	21,473,666,822.72
9. Total liabilities	11,027,922,339.72	7,721,893,570.20	1,804,121,334.07	-6,033,640,443.19	14,520,296,800.80
10. Additions to other non-current assets other than long-term equity investments	-30,992,581.07	-132,175,143.60	-8,512,160.76		-171,679,885.43

Continued from above table

Amount for previous period	Refrigerators and washing machines	Air-conditioners	Others	Inter-segment elimination	Total
1. Revenue from external sales	12,778,722,120.61	10,380,981,134.10	1,511,221,145.53		24,670,924,400.24
2. Revenue from inter-segment transactions			1,421,972,654.09	-1,421,972,654.09	
3. Gain from investment in associates and joint ventures	-36,319,775.98	570,847,737.90	-83,804.31		534,444,157.61
4. Depreciation and amortization	379,801,361.26	229,060,142.67	88,538,067.76		697,399,571.69
5. Gain arising from changes in fair value	9,363,479.52	9,363,479.52	735,843.75		19,462,802.79
6. Impairment losses on assets	-8,481,794.86	1,378,521.44	2,667,800.71		-4,435,472.71
7. Total profit (losses)	339,173,744.17	811,227,846.76	137,598,681.84	-17,658,801.55	1,270,341,471.22
8. Total assets	16,353,487,356.13	9,041,182,287.58	4,024,041,294.03	-10,363,652,329.42	19,055,058,608.32
9. Total liabilities	11,403,174,704.17	6,845,206,682.64	2,369,794,279.08	-6,886,577,112.02	13,731,598,553.87
10. Additions to other non-current assets other than long-term equity investments	150,999,965.93	-104,416,041.45	-57,910,851.26		-11,326,926.78

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

52. Segment information *(continued)*

(2) Geographic Information

Region	Amount for the year/closing balance	Amount of previous year/opening balance
Revenue from domestic transactions	20,575,313,709.67	16,208,992,881.10
Revenues from overseas transactions	9,854,739,798.39	8,461,931,519.14
Total	30,430,053,508.06	24,670,924,400.24
Non-current assets – Domestic	6,613,223,821.24	6,051,857,671.33
Non-current assets – Overseas	12,837,890.84	1,221,897.61
Total	6,626,061,712.08	6,053,079,568.94

The Company operates mainly in Mainland China. Most of the Company's non-current assets are in Mainland China. Therefore it is not necessary to present further details of the regional information.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. CHANGE IN SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

(1) Disposal of a subsidiary in stages resulting in the Company's loss of control for the year

1. Constitution of a bundle of transactions

Name of the subsidiary	Time of disposal of equity interests	Consideration for disposal of equity interests	Percentage of disposal of equity interests (%)	Method for disposal of equity interests	Difference between consideration for disposal and net assets of the subsidiary attributable to the Company under consolidated financial statements	Timing of losing control	Basis for determination of timing of losing control
Foshan City Shunde District Baohong Property Management Company Limited	For details, please refer to "Note"	RMB862,560,000	100.00	Equity transfer	787,318,987.38	26 September 2017	For details, please refer to "Note"
Name of the subsidiary	Proportion of remaining equity interest at the date of loss of control (%)	Book value of remaining equity interest at the date of loss of control	Fair value of remaining equity interest at the date of loss of control	Gain or loss arising from the re-measured at fair value	Recognition and assumption for fair value of remaining equity interest at the date of loss of control	Profit or loss arising from transformation of other comprehensive income which is related to equity investment of former subsidiary	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements prior to loss of control
Foshan City Shunde District Baohong Property Management Company Limited	-	-	-	-	-	-	163,876,369.01

Note:

The Board of the Company considered and approved the "Resolution in respect of the Company's disposal of 100% equity interest in Foshan City Shunde District Baohong Property Management Company Limited by the Company" at the meeting on 11 January 2017. Upon the agreement of the Board of the Company, the Company entered into a framework agreement with Ningbo Meishan Bonded Port Yingmei Investment Management Company Limited (the "Yingmei Investment"). The Company proposed to transfer 100% of the equity interest of Foshan City Shunde District Baohong Property Management Company (the "Baohong Property") to Yingmei Investment Management Company for a consideration of RMB892,560,000.

On 18 August 2017, the Company completed the first transfer of 20% equity interest in Baohong Property to Yingmei Investment for a consideration of RMB178,512,000.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

7. CHANGE IN SCOPE OF CONSOLIDATION *(continued)*

1. Disposal of subsidiaries *(continued)*

(1) *Disposal of a subsidiary in stages resulting in the Company's loss of control for the year (continued)*

1. Constitution of a bundle of transactions *(continued)*

Note: *(continued)*

As approved at the shareholders' general meeting on 22 September 2017, the Company completed the second transfer of 80% equity interest in Baohong Property to Yingmei Investment for a consideration of RMB 684,048,000. The Company received the consideration for the second transfer on 26 September 2017 and filed a registration for changes in industry and commerce.

Since the Company has fully received the consideration for the equity transfer on 26 September 2017, and the equity transfer has been approved by the shareholders' general meeting of the Company, in addition to assisting in the registration of changes in industry and commerce (no major obstacle is expected), the Company no longer controls the financial or operating policies of Baohong Property. As a result, the Company defined 26 September 2017 as the time-point of loss of control.

The above transactions were entered into after taken into account the impact on each other.

2. Changes in scope of consolidation for other reasons

- (1) On 9 March 2017, the Company established Hisense Mould (Deutschland) GmbH with a registered capital of EUR2 million, of which EUR1.96 million or 98.00% of the total registered capital was contributed by the Company. The Company had its control and consolidated it into the Company's accounts from 9 March 2017.
- (2) Kelon (Japan) Limited, the then wholly owned subsidiary of the Company, was deregistered on 25 February 2017 and its results ceased to be consolidated into the Company's account since 25 February 2017.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of enterprise group

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Hisense Ronshen (Guangdong) Refrigerator Co., Ltd.	Guangdong Refrigerator	Foshan	Foshan	Manufacturing	70	30	Establishment or investment
Guangdong Kelon Air-conditioner Co., Ltd. (i)	Guangdong Air-conditioner	Foshan	Foshan	Manufacturing	60		Establishment or investment
Hisense Ronshen (Guangdong) Freezer Co., Ltd.	Guangdong Freezer	Foshan	Foshan	Manufacturing	44	56	Establishment or investment
Guangdong Hisense Home Appliances Co., Ltd.	Hisense Home Appliances	Foshan	Foshan	Manufacturing	81.17		Establishment or investment
Foshan Shunde Rongsheng Plastic Co., Ltd.	Rongsheng Plastic	Foshan	Foshan	Manufacturing	44.92	25.13	Establishment or investment
Guangdong Kelon Mould Co., Ltd.	Kelon Mould	Foshan	Foshan	Manufacturing		70.11	Establishment or investment
Guangdong Huaao Electronics Co., Ltd. (i)	Huaao Electronics	Foshan	Foshan	Manufacturing		70	Establishment or investment
Guangdong Foshan Shunde Kelon Property Service Co., Ltd.	Kelon Property	Foshan	Foshan	Provision of services	80	20	Establishment or investment
Foshan Shunde Wangao Import & Export Co., Ltd.	Wangao I&E	Foshan	Foshan	Trading	20	80	Establishment or investment
Foshan Shunde Kelon Jiake Electronics Co., Ltd.	Jiake Electronics	Foshan	Foshan	Manufacturing	70	30	Establishment or investment
Guangdong Kelon Weili Electrical Appliances Co., Ltd.	Kelon Weili	Zhongshan	Zhongshan	Manufacturing	55	25	Establishment or investment
Hisense Ronshen (Yingkou) Refrigerator Co., Ltd.	Yingkou Refrigerator	Yingkou	Yingkou	Manufacturing	42	36.79	Establishment or investment
Jiangxi Kelon Industrial Development Co., Ltd.	Jiangxi Kelon	Nanchang	Nanchang	Manufacturing	60	40	Establishment or investment
Jiangxi Kelon Combine Electrical Appliances Co., Ltd. (ii)	Combine	Nanchang	Nanchang	Manufacturing		55	Establishment or investment
Hangzhou Kelon Electrical Co., Ltd.	Hangzhou Kelon	Hangzhou	Hangzhou	Manufacturing	100		Establishment or investment
Hisense Ronshen (Yangzhou) Refrigerator Co., Ltd.	Yangzhou Refrigerator	Yangzhou	Yangzhou	Manufacturing	74.33	25.67	Establishment or investment
Shangqiu Kelon Electrical Co., Ltd.	Shangqiu Kelon	Shangqiu	Shangqiu	Manufacturing		100	Establishment or investment
Zhuhai Kelon Electrical Industrial Development Co., Ltd.	Zhuhai Kelon	Zhuhai	Zhuhai	Manufacturing	75	25	Establishment or investment

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Shenzhen Kelon Purchase Co., Ltd.	Shenzhen Kelon	Shenzhen	Shenzhen	Trading	95	5	Establishment or investment
Pearl River Electric Refrigerator Co., Ltd.	Pearl River Refrigerator	Hong Kong	Hong Kong	Trading		100	Establishment or investment
Kelon Development Co., Ltd.	Kelon Development	Hong Kong	Hong Kong	Investment	100		Establishment or investment
Kelon International Incorporation	KII	Hong Kong	British Virgin Islands	Trading		100	Establishment or investment
Hisense (Chengdu) Refrigerator Co., Ltd.	Chengdu Refrigerator	Chengdu	Chengdu	Manufacturing	100		Establishment or investment
Hisense (Shandong) Refrigerator Ltd.	Shandong Refrigerator	Qingdao	Qingdao	Manufacturing	100		Establishment or investment
Guangdong Hisense Refrigerator Marketing Co., Ltd.	Refrigerator Marketing Company	Foshan	Foshan	Trading		78.82	Establishment or investment
Qingdao Hisense Air-conditioner Marketing Co., Ltd.	Airconditioner Marketing Company	Qingdao	Qingdao	Trading		75.57	Establishment or investment
Hisense (Guangdong) Air-Conditioner Company Limited	Hisense Guangdong Air-Conditioner	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Guangdong) Mould Plastic Company Limited	Hisense Guangdong Mould Plastic	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Jiangmen Hisense Electrical Appliances Co., Ltd.	Jiangmen Hisense Electrical Appliances	Jiangmen	Jiangmen	Manufacturing		100	Establishment or investment
Hisense (Beijing) Electric Co., Ltd.	Beijing Refrigerator	Beijing	Beijing	Manufacturing	55		Business combination under common control
Hisense (Shandong) Air-Conditioning Co. Ltd.	Shandong Air-conditioning	Qingdao	Qingdao	Manufacturing	100		Business combination under common control
Hisense (Zhejiang) Air-conditioning Co., Ltd.	Zhejiang Air-conditioning	Huzhou	Huzhou	Manufacturing		100	Business combination under common control
Qingdao Hisense Mould Co., Ltd.	Hisense Mould	Qingdao	Qingdao	Manufacturing	78.70		Business combination under common control

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in subsidiaries *(continued)*

(1) Composition of enterprise group (continued)

Name of subsidiary	Abbreviation	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Method for acquisition
					Direct	Indirect	
Hisense (Nanjing) Electric Company Limited	Nanjing Refrigerator	Nanjing	Nanjing	Manufacturing		60	Business combination under common control
Zhejiang Hisense Electric Co., Ltd.	Zhejiang Hisense	Huzhou	Huzhou	Manufacturing		100	Business combination not under common control
Qingdao Hisense Commercial Cold Chain Co., Ltd.	Commercial Cold Chain	Qingdao	Qingdao	Manufacturing		70	Establishment or investment
Hisense Changsha Electronic Commerce Co., Ltd.	Changsha Electronic	Changsha	Changsha	Trading		100	Establishment or investment
Hisense Mould (Deutschland) GmbH	German Hisense Mould	Germany	Germany	Manufacturing		98	Establishment or investment

Notes:

- (i) The Company holds 60% equity interest in Guangdong Air-conditioner and 70% equity interest in Huaao Electronics. However, as the Company has undertaken to provide them with financial support, bear 100% of their losses and enjoy 100% of their voting rights, they have been accounted for as long-term equity investment at a 100% shareholding percentage;
- (ii) The Company holds 55% equity interest in Combine. As Combine had been declared in liquidation, it has not been included in the consolidated financial statements;
- (iii) All subsidiaries incorporated in the PRC are companies with limited liability, save for Refrigerator Marketing Company, Air-conditioner Marketing Company and Commercial Cold Chain which are joint-stock companies with limited liability.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

(2) Principal non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interest (%)	Gain or loss attributable to minority interests for the year	Dividends paid to minority interests for the year	Closing balance of minority interests
Refrigerator Marketing Company	21.18	253,923.13	3,913,956.00	48,147,427.18
Air-conditioner Marketing Company	24.43	19,312,958.07	1,700,850.00	45,213,883.86

(3) Major financial information of principal non-wholly-owned subsidiaries

RMB'0000

Name of subsidiary	Closing balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	571,012.13	2,201.67	573,213.80	550,486.40		550,486.40
Air-conditioner Marketing Company	395,938.30	1,386.82	397,325.12	378,815.86		378,815.86

Name of subsidiary	Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Refrigerator Marketing Company	584,683.44	2,080.42	586,763.86	562,308.79		562,308.79
Air-conditioner Marketing Company	279,391.51	1,199.64	280,591.15	269,291.78		269,291.78

Name of subsidiary	Amount for the year				Amount for previous year			
	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Refrigerator Marketing Company	935,066.04	119.86	119.86	-43,962.28	796,626.71	2,902.62	2,902.62	160,795.38
Air-conditioner Marketing Company	914,428.08	7,906.17	7,906.17	14,626.86	647,686.29	3,815.60	3,815.60	77,650.63

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES *(continued)*

2. Transactions that led to changes in the ownership interest in, but without losing of control of the subsidiary

(1) *Note to change in the ownership interest in subsidiary*

The new registered capital of Commercial Cold Chain for the year amounted to RMB13,500,000.00. Upon the capital contribution, the percentage of shareholding of the Company in Commercial Cold Chain changed from 95.89% to 70.00%, and the Company still has control over it.

(2) *Impact of the transaction on minority interests and equity attributable to owners of the parent company*

Item	Commercial Cold Chain
Cost of purchase/consideration for disposal	
– Cash	13,500,000.00
Total cost of purchase/consideration for disposal	13,500,000.00
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	13,502,505.05
Difference	-2,505.05
Including: Adjustment to capital reserves	-2,505.05
Adjustment to surplus reserves	
Adjustment to undistributed profits	

3. Interests in joint ventures or associates

(1) *Significant joint ventures or associates*

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Shareholding percentage (%)		Accounting method for investment in joint ventures or associates
				Direct	Indirect	
Hisense Hitachi	Qingdao	Qingdao	Manufacturing	49.00		Equity method
Hisense Financial Holdings	Qingdao	Qingdao	Financial services industry	24.00		Equity method
Hisense Electric Business	Qingdao	Qingdao	Electric business		45.00	Equity method

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES (continued)

3. Interests in joint ventures or associates (continued)

(2) Major financial information of significant associates

RMB'0000

Item	Closing balance/ Amount for the year		Opening balance/ Amount for previous year	
	Hisense Hitachi	Zhejiang Hisense	Hisense Hitachi	Zhejiang Hisense
Current assets	817,748.63		634,886.85	
Including: Cash and cash equivalents	521,555.24		420,152.54	
Non-current assets	145,782.95		51,524.78	
Total assets	963,531.58		686,411.63	
Current liabilities	504,131.66		337,334.70	
Non-current liabilities	10,357.71		8,025.26	
Total liabilities	514,489.36		345,359.96	
Minority interest	19,357.18		13,635.23	
Equity attributable to shareholders of the parent company	429,685.04		327,416.44	
Share of net assets based on shareholding percentage	210,545.67		160,434.06	
Adjustments				
– Goodwill				
– Unrealized profit from intra-group transactions				
– Others	2,039.54		2,304.30	
Carrying amount of equity investments in joint ventures	212,585.21		162,738.36	
Fair value of investments in joint ventures with public quoted prices				
Operating revenue	940,177.24		651,846.73	38,899.86
Net profit	156,717.76		122,335.38	-7,263.96
Net profit from discontinued operations				
Other comprehensive income				
Total comprehensive income	156,717.76		122,335.38	-7,263.96
Dividend received from joint ventures during the year	22,956.50		16,023.00	

Note: 18 November 2016, the Company acquired from the joint venture partner in respect of Zhejiang Hisense all of its equity interest in Zhejiang Hisense. Upon acquisition, the Company holds 100% equity interest in Zhejiang Hisense and has consolidated its results.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

8. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(3) Aggregated financial information of insignificant joint ventures and associates

RMB'0000

Item	Closing balance/ Amount for the year	Opening balance/ Amount for previous year
Joint ventures:		
Total carrying amount of investments	127.98	
Amounts in aggregate in proportion to the shareholdings:		
– Net profit	-97.02	
– Other comprehensive income		
– Total comprehensive income	-97.02	
Associates:		
Total carrying amount of investments	24,491.38	
Amounts in aggregate in proportion to the shareholdings:		
– Net profit	491.38	-8.38
– Other comprehensive income		
– Total comprehensive income	491.38	-8.38

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. RISKS RELATING TO FINANCIAL INSTRUMENTS

The Company's major financial instruments include: cash at bank and on hand, derivative financial instruments, notes receivable, accounts receivable, other receivables, notes payable, accounts payable, other payables, bank borrowings. Details of the financial instruments were disclosed in the relevant notes.

Risks with respect to the above financial instruments include: credit risk, liquidity risk, interest rate risk and foreign currency risk.

(1) Credit risk

Credit risk is the risk to which the Company is exposed to on financial losses due to the failure of clients or financial instrument counterparties to fulfill their contractual obligations, mainly with respect to bank balances, trade and other receivables and financial derivative.

The Company maintains substantially all of its bank balances in domestic financial institutions with higher credit rating. The Board believes these assets are not exposed to significant credit risk that would cause financial losses.

The Company mitigates its exposure to risks in respect of trade and other receivables by dealing with diversified customers with healthy financial positions. Certain new customers are required by the Company to make cash payment in order to minimise credit risk. The Company seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. In addition, all receivable balances are monitored on an ongoing basis and overdue balances are followed up by senior management.

The credit risk on derivative instruments is not significant as the counterparties are high creditworthy banks rated by international credit-rating agencies.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of financial assets shown on the consolidated financial statements.

(2) Liquidity risk

In respect of the management of liquidity risk, the Company monitors and maintains cash and cash equivalents at a level which is adequate, in the management's point of views, to finance the Company's operations and mitigate the effects of short-term fluctuations in cash flows. The Company's treasury department is responsible for maintaining a balance between continuity of funding and flexibility through the use of bank credit in order to meet the Company's liquidity requirements.

In order to mitigate the liquidity risk, the directors have carried out a detailed review of the liquidity of the Company, including maturity profile of its accounts and other payables, availability of borrowings and loan financing provided by Hisense Finance, and it is concluded that the Company has adequate funding to fulfill its short-term obligations and capital expenditure requirements.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. RISKS RELATING TO FINANCIAL INSTRUMENTS (continued)

(2) Liquidity risk (continued)

As at the balance sheet date, the undiscounted contractual cash flows of financial assets and financial liabilities of the Company based on maturity date were as follows:

31 December 2017

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Cash at bank and on hand	2,996,028,194.89			2,996,028,194.89	
Financial assets at fair value					
through profit or loss	82,670.52				82,670.52
Notes receivable	3,517,031,644.77				3,517,031,644.77
Accounts receivable	2,977,583,952.21				2,977,583,952.21
Other receivables	423,022,078.96				423,022,078.96
Other current assets	1,551,317,129.32				1,551,317,129.32
Total	11,465,065,670.67				11,465,065,670.67
Financial liabilities					
Financial liabilities at					
fair value through					
profit or loss	373,723.35				373,723.35
Notes payable	6,141,025,710.22				6,141,025,710.22
Accounts payable	4,238,836,841.44				4,238,836,841.44
Other payables	1,709,226,096.76				1,709,226,096.76
Other current liabilities	639,347,580.40				639,347,580.40
Total	12,728,809,952.17				12,728,809,952.17

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(2) Liquidity risk *(continued)*

31 December 2016

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	2,227,421,330.74			2,227,421,330.74	
Financial assets at fair value					
through profit or loss	9,695,070.04				9,695,070.04
Notes receivable	3,281,453,069.10				3,281,453,069.10
Accounts receivable	2,857,617,668.81				2,857,617,668.81
Other receivables	342,268,675.30				342,268,675.30
Other current assets	1,678,765,851.25				1,678,765,851.25
Total	10,397,221,665.24				10,397,221,665.24
Financial liabilities					
Notes payable	5,227,854,741.07			5,227,854,741.07	
Accounts payable	4,367,268,398.09				4,367,268,398.09
Other payables	1,661,704,359.95				1,661,704,359.95
Other current liabilities	715,840,695.57				715,840,695.57
Total	11,972,668,194.68				11,972,668,194.68

The maturity of bank and other borrowings were analyzed as follows:

The Company had no bank and other borrowings as at 31 December 2017 and 31 December 2016.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

9. RISKS RELATING TO FINANCIAL INSTRUMENTS *(continued)*

(3) Interest rate risk

The Company is exposed to interest rate risk due to changes in interest rates of interestbearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks, which are mostly short-term in nature whereas interest-bearing financial liabilities are primarily short-term bank borrowings. As at 31 December 2017, the Company had no short-term bank borrowings. As such, any change in the interest rate is not considered to have significant impact on the Company's performance.

(4) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse change in exchange rates with respect to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD, JPY and EUR. The exchange rates between RMB, HKD, USD, JPY and EUR are not pegged, and there is fluctuation in exchange rates between RMB, USD, JPY and EUR.

The carrying amounts of the Company's monetary assets and liabilities denominated in foreign currencies at the end of reporting period are as follows:

Currency	Closing balance		Opening balance	
	Assets	Liabilities	Assets	Liabilities
USD	530,948,560.89	40,863,002.66	1,290,579,495.25	87,554,216.64
EUR	59,787,423.79	5,442,353.92	51,929,995.78	1,217,941.12

The following table indicates the approximate effect of reasonably possible foreign exchange rate changes on the net profit, to which the Group has significant exposure at the end of reporting period:

Sensitivity analysis of change in exchange rate:

Item	Current year Increase/Decrease in profit after tax	Previous year Increase/Decrease in profit after tax
USD to RMB		
Appreciates by 5%	18,378,208.43	45,113,447.95
Depreciates by 5%	-18,378,208.43	-45,113,447.95
EUR to RMB		
Appreciates by 5%	2,037,940.12	1,901,702.05
Depreciates by 5%	-2,037,940.12	-1,901,702.05

Sensitivity analysis of change in forward rate:

Item	Current year Increase/Decrease in profit after tax	Previous year Increase/Decrease in profit before tax
USD to RMB		
Appreciates by 5%	-25,515.00	-750,000.00
Depreciates by 5%	25,515.00	750,000.00
EUR to RMB		
Appreciates by 5%	-221,501.25	-2,191,586.25
Depreciates by 5%	221,501.25	2,191,586.25

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

10. DISCLOSURE OF FAIR VALUE

1. Fair value of assets and liabilities measured at fair value as at the end of the year

Item	Fair value as at the end of the year			Total
	Level 1 Fair value measurement	Level 2 Fair value measurement	Level 3 Fair value measurement	
I. Fair value measurement on a recurring basis				
(i) Financial assets at fair value through profit or loss				
1. Financial assets held-for-trading				
(1) Derivative financial assets		82,670.52		82,670.52
Total assets measured at fair value on a recurring basis		82,670.52		82,670.52
(ii) Financial liabilities held-for-trading				
Including: Derivative financial liabilities				
		373,723.35		373,723.35
Total liabilities measured at fair value on a recurring basis		373,723.35		373,723.35

2. Valuation techniques and qualitative and quantitative information for level 2 items measured on and not on a recurring basis

As at the balance sheet date, the Company had obtained forward rate quotations from contracted banks, which were determined based on the remaining term to maturity. The fair values of forward exchange contracts were determined by multiplying the difference between the quotations and agreed exchange rate for forward exchange contracts by the amount for forward exchange settlement.

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Particulars of the parent and the ultimate shareholder

<i>(Amount Unit: RMB '0000)</i>					
Name of the parent	Relationship	Category of enterprise	Registration address	Legal representative	Business nature
Qingdao Hisense Air-conditioning	Controlling shareholder	Foreign-sino joint venture	Qingdao	Tang Ye Guo	Manufacture of air conditioners, moulds and provision of after-sale services
Hisense Group	Ultimate Controlling shareholder	State wholly-owned	Qingdao	Zhou Hou Jian	Entrusted operation of state-owned assets; manufacture and sales of household appliances, communication products and provision of related services

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

1. Particulars of the parent and the ultimate shareholder (continued)

Continued from above table

Name of the parent	Registered capital	Shareholding of the parent in the Company (%)	Voting rights of the parent in the Company (%)	Ultimate holding company of the Company	Creditability code
Qingdao Hisense Air-conditioning	67,479	37.92	37.92	State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	913702126143065147
Hisense Group	80,617			State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government	913702001635787718

2. Subsidiaries of the Company

Please see note 8(1) "Interests in subsidiaries".

3. Joint ventures and associates of the Company

For details of the joint ventures and associates of the Company, please see note 8(3) "Interests in joint ventures or associates".

4. Greencool Companies

Name of related parties of Greencool Companies	Relationship with the Company
Guangdong Greencool	Former controlling shareholder of the Company
Jiangxi Greencool Electrical Appliance Co., Ltd. ("Jiangxi Greencool")	Related party of Guangdong Greencool

5. Other related parties of the Company

Name of other related parties	Relationship with the Company
Hisense Finance Co., Ltd. ("Hisense Finance")	Subsidiary of ultimate holding company
Hisense Electric Co., Ltd. ("Hisense Electric")	Subsidiary of ultimate holding company
Beijing Xuehua Group Company Limited ("Xuehua Group")	Minority shareholder of Beijing Refrigerator
Hisense (Hong Kong) Company Limited ("Hisense Hong Kong")	Subsidiary of ultimate holding company

6. The Greencool Companies had a series of transactions or unusual cash inflows and outflows through the following "Specific Third Party Companies"

Name of related party	Relationship with the Company
Jinan San Ai Fu	Specific Third Party Company
Jiangxi Keda	Specific Third Party Company
Zhuhai Longjia	Specific Third Party Company
Zhuhai Defa	Specific Third Party Company
Wuhan Changrong	Specific Third Party Company
Deheng Solicitors	Specific Third Party Company
Shangqiu Bingxiong	Specific Third Party Company

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions

(1) Purchase of goods/receipt of services

Related party	Particulars of related party transactions	Pricing and decision-making procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Zhejiang Hisense	Finished goods	Agreed price			198,685,542.32	0.97
Hisense Electric and its subsidiaries	Finished goods	Agreed price	75,050.43		134,004.95	
Hisense Group and its subsidiaries	Finished goods	Agreed price	873,505.79		15,124.79	
Subtotal of purchase of finished goods			948,556.22		198,834,672.06	0.97
Hisense Electric and its subsidiaries	Raw materials	Agreed price	8,796,675.91	0.03	14,894,481.40	0.07
Hisense Group and its subsidiaries	Raw materials	Agreed price	103,252,819.20	0.38	10,787,314.34	0.05
Zhejiang Hisense	Raw materials	Agreed price			6,534,835.95	0.03
Hisense Hitachi	Raw materials	Agreed price	12,307,303.17	0.05	7,454,966.23	0.04
Subtotal of purchase of raw materials			124,356,798.28	0.46	39,671,597.92	0.19
Zhejiang Hisense	Equipment	Agreed price			1,111,111.11	0.01
Hisense Electric and its subsidiaries	Equipment	Agreed price	547,740.68			
Subtotal of purchase of equipment			547,740.68		1,111,111.11	0.01
Hisense Electric and its subsidiaries	Receipt of services	Agreed price	19,506,182.48	0.07	14,575,170.73	0.07
Xuehua Group	Receipt of services	Agreed price	1,309,109.21		1,695,834.54	0.01
Hisense Group and its subsidiaries	Receipt of services	Agreed price	432,323,058.19	1.60	485,527,316.96	2.37
Subtotal of receipt of services			453,138,349.88	1.68	501,798,322.23	2.45
Hisense Hong Kong	Financing purchase		334,271,237.67	1.24	257,608,352.83	1.26
Subtotal of financing purchase			334,271,237.67	1.24	257,608,352.83	1.26

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(1) Purchase of goods/receipt of services (continued)

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 17 November 2016. During the effective period of the agreement, the transaction with the Company as the purchaser and recipient of services was subject to an aggregate cap (exclusive of value-added tax) of RMB702,870,000.
- (2) The Company and Zhejiang Hisense entered into a Business Framework Agreement (I) on 17 November 2016. During the effective period of the agreement, the transaction with the Company as the purchaser was subject to an aggregate cap (exclusive of value-added tax) of RMB15,190,000.
- (3) The Company and Hisense Hong Kong entered into a Financing Purchase Framework Agreement on 17 November 2016. During the effective period of the agreement, the transaction in which Hisense Kelon engaged Hisense Hong Kong to perform financing purchase as its agent was subject to an aggregate cap of US\$65,000,000.

The above agreements were considered and approved at the sixth interim meeting of the Company's ninth session of the board of directors in 2016 convened on 17 November 2016 and the first extraordinary general meeting in 2017 convened on 9 January 2017 respectively.

- (4) The above transactions with Hisense Group and its subsidiaries, Hisense Electrical Appliances and its subsidiaries, Hisense Hong Kong, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules with respect to such continuing connected transactions (with the exceptions of the Purchase Financing Agency Framework Agreement between the Company and Hisense Hong Kong, which was made on normal commercial terms and in the interest of the Company, without any charge on the Group's assets for the financial assistance. As such, the connected transactions between the Company and Hisense Hong Kong were exempted from the requirements of reporting, announcement and shareholders' approval according to rules 14A.65(4) and 14A.76(1) (b) under the Listing Rules).

Other than the above transactions, the transactions with related parties conducted in 2017 as disclosed in note 11 of the financial statements in the 2017 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

7. Related party transactions (continued)

(2) Sale of goods/rendering of service

Related party	Particulars of related party transactions	Pricing and decision-making Procedures of related party transactions	Amount for the year		Amount for previous year	
			Amount	Percentage of the amount for similar transactions (%)	Amount	Percentage of the amount for similar transactions (%)
Hisense Electric and its subsidiaries	Finished goods	Agreed price	680,391.91		172,161.55	
Hisense Hitachi	Finished goods	Agreed price	390,788,245.61	1.17	192,860,478.78	0.72
Hisense Group and its subsidiaries	Finished goods	Agreed price	7,398,969,252.35	22.09	3,007,371,896.33	11.25
Subtotal of sale of finished goods			7,790,437,889.87	23.26	3,200,404,536.66	11.97
Zhejiang Hisense	Raw materials	Agreed price			3,821,458.64	0.01
Hisense Group and its subsidiaries	Raw materials	Agreed price	42,640,908.22	0.13	32,579,947.26	0.12
Hisense Hitachi	Raw materials	Agreed price	1,990,509.55	0.01	3,551,343.88	0.01
Hisense Electric and its subsidiaries	Raw materials	Agreed price	27,265,414.73	0.08	28,812,549.88	0.11
Subtotal of sale of raw materials			71,896,832.50	0.22	68,765,299.66	0.25
Hisense Group and its subsidiaries	Moulds	Market price	321,894,265.52	0.96	231,966,160.65	0.87
Hisense Hitachi	Moulds	Market price	20,374,358.94	0.06	8,604,700.89	0.03
Zhejiang Hisense	Moulds	Market price			854,700.87	
Hisense Electric and its subsidiaries	Moulds	Market price	76,538,803.48	0.23	84,993,480.12	0.32
Subtotal of sale of moulds			418,807,427.94	1.25	326,419,042.53	1.22
Hisense Electric and its subsidiaries	Equipment	Agreed price	279,327.48			
Subtotal of purchase of equipment			279,327.48			
Hisense Electric and its subsidiaries	Provision of services	Agreed price	98,737.76		436,118.95	
Zhejiang Hisense	Provision of services	Agreed price			75,213.67	
Hisense Group and its subsidiaries	Provision of services	Agreed price	20,968,161.82	0.06	12,469,090.15	0.05
Hisense Hitachi	Provision of services	Agreed price	131,599.66			
Subtotal of rendering of services			21,198,499.24	0.06	12,980,422.77	0.05

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(2) Sale of goods/rendering of service (continued)

- (1) The Company and Hisense Group and Hisense Electric entered into a Business Cooperation Framework Agreement on 17 November 2016. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB10,860,800,000.
- (2) The Company and Hisense Hitachi entered into a Business Framework Agreement (I) on 17 November 2016. During the effective period of the agreement, the transaction with the Company as the supplier and service provider was subject to an aggregate cap (exclusive of value-added tax) of RMB427,740,000.

The above agreements were considered and approved at the sixth interim meeting of the Company's ninth session of the board of directors in 2016 convened on 17 November 2016 and the first extraordinary general meeting in 2017 convened on 9 January 2017 respectively.

On 31 August 2017, the Company entered into the Business Framework Agreement (I) with Hisense Hitachi, during the term of which the Company recorded a total cap transaction amount of RMB487,740,000 million (exclusive value-add tax) from the supply and the provision of services.

The above agreements were approved at the 2017 seventh extraordinary general meeting of the ninth session of the Board held on 31 August 2017 and the 2017 second extraordinary general meeting held on 22 September 2017, respectively.

- (3) The above transactions with Hisense Group and its subsidiaries, Hisense Electrical Appliances and its subsidiaries, constitute continuous connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the relevant disclosure requirement and shareholders' approval requirement under Chapter 14A of the Listing Rules.

Other than the above transactions, the transactions with related parties conducted in 2017 as disclosed in note 11 of the financial statements in the 2017 annual report do not constitute connected transactions under Chapter 14A of the Listing Rules.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

7. Related party transactions *(continued)*

(3) Related party guarantees

Guarantor	Guaranteed party	Amount (RMB'0000)	Inception date of guarantee	Expiry date of guarantee	Nature of guarantee	Execution of guarantee is completed or not
Hisense Group	Shandong Refrigerator	71.88	2016-3-4	2018-2-28	Import letter of credit	No
Subtotal		71.88	-	-		

Notes to related party guarantees:

In January 2016, Hisense Group and the business department of Qingdao branch of Agricultural Bank entered into a Maximum Guarantee Contract (No. 84100520160000554), pursuant to which Hisense Group would provide guarantee securities for the liabilities under the maximum credit limit of RMB100,000,000 arising from various businesses with Shandong Refrigerator by the business department of Qingdao branch of Agricultural Bank during the period from 1 January 2016 to 30 May 2016.

(4) Key management personnel emoluments

Please see note 15(4) for details.

(5) Other connected transactions

As at 31 December 2017, the Company and its subsidiaries had the balance of deposit of RMB2,618,431,100, the balance of bank loan of RMB0, and balance of electronic bank acceptance bill of RMB3,237,291,500 with Hisense Finance. For the year, loan interest, amount of discounted interest, the handling fee for opening accounts for electronic bank acceptance bill and settlement services for receipt and payment of funds paid by the Company to Hisense Finance amounted to RMB0, RMB5.79 million, RMB4.0205 million and RMB310,100. The Company received interest income from bank deposits of RMB25.7674 million from Hisense Finance. The actual amount involved for the provision of settlement and sale of foreign exchange services provided by Hisense Finance to the Company was RMB73.6946 million and the amount for provision of discounted notes was RMB425 million.

In 2017, the Company and its subsidiaries had the balance of the non-recourse factoring services of RMB400 million with Hisense Commercial Factoring with the handling fee of RMB 1.181 million paid.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties

(1) Receivables from related parties

Item	Related party	Closing balance		Opening balance	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Notes receivable	Hisense Electric and its subsidiaries	44,914,566.88		9,757,198.10	
Notes receivable	Hisense Group and its subsidiaries	24,265,961.53		5,897,256.62	
Notes receivable	Hisense Hitachi	17,468,894.11		100,000.00	
Subtotal		86,649,422.52		15,754,454.72	
Accounts receivable	Hisense Electric and its subsidiaries	30,059,041.39		26,886,474.22	
Accounts receivable	Hisense Group and its subsidiaries	1,096,554,035.84	62,950.00	788,750,643.07	539,160.91
Accounts receivable	Hisense Hitachi	29,986,398.94		25,933,799.59	
Subtotal		1,156,599,476.17	62,950.00	841,570,916.88	539,160.91
Other receivables	Hisense Electric and its subsidiaries	10,000.00		10,000.00	
Other receivables	Hisense Group and its subsidiaries	67,474.16	51,998.90	249,037.12	
Subtotal		77,474.16	51,998.90	259,037.12	
Prepayments	Hisense Group and its subsidiaries	1,908,430.82		550,955.34	
Subtotal		1,908,430.82		550,955.34	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

8. Receivables from and payables to related parties *(continued)*

(2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Note payable	Hisense Electric and its subsidiaries		3,281,866.38
Note payable	Hisense Group and its subsidiaries	5,650,000.00	
Subtotal		5,650,000.00	3,281,866.38
Accounts payable	Hisense Group and its subsidiaries	32,607,968.92	55,770,650.47
Accounts payable	Hisense Hitachi	1,797,741.86	305,322.35
Accounts payable	Hisense Electric and its subsidiaries		33,433.77
Subtotal		34,405,710.78	56,109,406.59
Other payables	Hisense Group and its subsidiaries	17,871,480.24	22,333,006.67
Other payables	Hisense Hitachi		1,710.00
Other payables	Xuehua Group and its subsidiaries	185,656.11	
Subtotal		18,057,136.35	22,334,716.67
Advances	Hisense Group and its subsidiaries	2,010,825.02	2,182,418.55
Subtotal		2,010,825.02	2,182,418.55

9. Transactions with “specific third party companies”

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other receivables	Jinan San Ai Fu	81,600,000.00	81,600,000.00
	Jiangxi Keda	13,000,200.00	13,000,200.00
	Zhuhai Longjia	28,600,000.00	28,600,000.00
	Zhuhai Defa	21,400,000.00	21,400,000.00
	Wuhan Changrong	20,000,000.00	20,000,000.00
	Deheng Solicitors	2,000,000.00	2,000,000.00
	Shangqiu Bingxiong	58,030,000.00	58,030,000.00
Subtotal of other receivables		224,630,200.00	224,630,200.00
Other payables	Zhuhai Longjia	17,766,425.03	17,766,425.03
Subtotal of other payables		17,766,425.03	17,766,425.03

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

10. Transactions with Greencool Companies

Item	Related party	At the end of the year Book value	At the beginning of the year Book value
Other payables	Jiangxi Greencool	13,000,000.00	13,000,000.00
Subtotal of other payables		13,000,000.00	13,000,000.00

12. SHARE-BASED PAYMENT

None.

13. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

(1) Capital commitments

Unit: RMB'0000

Item	Closing balance	Opening balance
Commitments in respect of investment in subsidiaries and jointly controlled entity (commitment to purchase long-term assets):		
– Authorized but not contracted		
– Contracted but not paid	4,585.21	3,047.41
Commitments in respect of acquisition of the property, plant and equipment of subsidiaries (commitment for external investment):		
– Contracted but not paid		

(2) Operating lease commitments

Please see note 15(6) lease for details

2. Contingencies

(1) Contingent liabilities arising from pending litigations and arbitration and their financial impacts

As at 31 December 2017, the Company was involved, as defendant, in litigations with amount of RMB17,758,700.55, and provision of RMB5,795,550.00 had been made.

14. SUBSEQUENT EVENTS

Profit distribution

On 29 March 2018, the Proposed Profit Distribution Plan for 2017 was considered and approved at the first meeting of 2018 of the ninth session of the Board of the Company: Based on the total share capital of 1,362,725,370 shares of the Company as at 31 December 2017, a cash dividend of RMB4.4 (tax inclusive) was to be paid to all shareholders for every 10 shares held, amounting to a total distributed profit of RMB599,599,162.80. The undistributed profit would be rolled over for distribution in subsequent years. There will be no issue of bonus share and no transfer of capital reserve to share capital during the year. Such resolution is subject to the approval at 2017 annual general meeting of the Company.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

Item	Opening balance	Amount of financial assets/liabilities	Gain or loss from change in fair value	Impairment provision for the year	Closing balance
Financial assets					
Derivative financial assets	9,695,070.04		-9,612,399.52		82,670.52
Subtotal of financial assets	9,695,070.04		-9,612,399.52		82,670.52
Financial liabilities					
Derivative financial liabilities			-373,723.35		373,723.35
Subtotal of financial liabilities			-373,723.35		373,723.35

2. Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes bank and other borrowings, accounts payable, notes payable, other payables and debentures payables, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Item	End of the year	Beginning of the year
Total debt	14,520,296,800.80	13,731,598,553.87
Including: Short-term borrowings		
Accounts payable	4,238,836,841.44	4,367,268,398.09
Notes payable	6,141,025,710.22	5,227,854,741.07
Other payables	1,709,226,096.76	1,661,704,359.95
Less: Cash and cash equivalents	952,318,970.66	794,984,893.88
Net debt	13,567,977,830.14	12,936,613,659.99
Equity attributable to shareholders of parent	6,445,303,673.87	4,867,466,177.17
Capital and net debt	20,013,281,504.01	17,804,079,837.16
Gearing ratio	67.79%	72.66%

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments

The emoluments paid or payable to the directors and supervisors of the Company are as follows:

(1) As at 31 December 2017

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive directors					
Tang Ye Guo	Chairman		317.83	9.06	326.89
Liu Hong Xin	Director				
Lin Lan	Director				
Dai Hui Zhong	Director		11.67		11.67
Jia Shao Qian	Director and president		195.20		195.20
Wang Yun Li	Director and vice president		219.49	8.00	227.49
Wang Zhi Gang	Former director and vice president		155.63	8.00	163.63
Independent non-executive director					
Ma Jin Quan	Independent non-executive director	14.00			14.00
Xu Xiang Yi	Independent non-executive director	14.00			14.00
Liu Xiao Feng	Independent non-executive director	6.55			6.55
Wang Xin Yu	Former independent non-executive director	17.45			17.45
Wang Ai Guo	Former independent non-executive director				
Supervisors					
Liu Zhen Shun	Chairman of the Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		76.96	2.33	79.29
Total		52.00	976.78	27.39	1,056.17

(i) Note: During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.

(ii) Mr. Liu Xiao Feng was appointed as an independent director of the Company in September 2017.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

(2) As at 31 December 2016

Unit: RMB'0000

Name	Position	Emoluments of independent director	Salaries and allowances	Pension scheme contributions	Total
Executive director					
Tang Ye Guo	Chairman		260.06	8.30	268.36
Liu Hong Xin	Director				
Lin Lan	Director				
Dai Hui Zhong	Director		237.44	6.27	243.71
Jia Shao Qian	Director and vice-president		159.40	7.22	166.62
Wang Yun Li	Director and vice-president		161.71	7.54	169.25
Wang Zhi Gang	Former director and vice-president		110.10	7.49	117.59
Tian Ye	Former director and former president				
Independent non-executive director					
Ma Jin Quan	Independent non-executive director				
Xu Xiang Yi	Independent non-executive director	11.50			11.50
Wang Xin Yu	Independent non-executive director	24.00			24.00
Wang Ai Guo	Former independent non-executive director	11.50			11.50
Supervisor					
Liu Zhen Shun	Chairman of Supervisory Committee				
Yang Qing	Supervisor				
Fan Wei	Supervisor		52.30	2.16	54.46
Total		47.00	981.01	38.98	1,066.99

- (i) During the year, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived or agreed to waive any emoluments during the year.
- (ii) Mr. Wang Yun Li was appointed as vice president of the Company in May 2016 and as director of the Company in June 2016; Mr. Dai Hui Zhong was appointed as director of the Company in June 2016; Mr. Ma Jin Quan was appointed as an independent director of the Company in January 2017.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS (continued)

3. Directors and supervisors' emoluments (continued)

(3) Five highest paid individuals

In 2017, four (2016: four) of the five highest paid individuals of the Company were directors. The aggregate of the emoluments in respect of the other one individual (2016: one) is as follows (in respect of the range of emoluments for 2017, emoluments of one individual exceeded RMB3,000,000 and below RMB3,500,000, that of one individual exceeded RMB2,000,000 and below RMB2,500,000, and those of three individuals exceeded RMB1,500,000 and below RMB2,000,000; in respect of the range of emoluments for 2016, those of one individual exceeded RMB2,500,000 and below RMB3,000,000, those of one individual exceeded RMB2,000,000 and below RMB2,500,000, and those of three individuals exceeded RMB1,500,000 and below RMB2,000,000):

Unit: RMB'0000

Item	Amount for current period	Amount for previous period
Salaries, allowance and pension scheme contributions	171.66	152.79

4. Key management personnel emoluments

Unit: RMB'0000

Item	Amount of the year	Amount of previous year
Directors and supervisors		
Emoluments, salaries and allowances of independent directors	1,028.78	1,028.01
Pension scheme contributions	27.39	38.98
Emoluments of other key management personnel		
Salaries and allowances	132.97	165.11
Pension scheme contributions	10.24	12.97
Total	1,199.38	1,245.07

Note: Key management personnel refers to the senior management who has the authority and responsibility for planning, directing and controlling the corporate activities.

5. Pension scheme

The Company and its subsidiaries contributes mainly to a defined contribution pension scheme, which is administered by the provincial government, in respect of employees of the Company and its subsidiaries. According to such scheme, the Company and its subsidiaries shall make contributions to the pension fund at certain percentage of the total salaries and wages of their employees.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases

(1) *Different categories of leased assets of the Company are as follows:*

Unit: RMB'0000

Categories of leased assets under operating leases	Closing carrying amount	Opening carrying amount
Buildings and structures	6,250.83	6,804.39
Total	6,250.83	6,804.39

(2) *The Company as lessor under operating lease*

The Company's investment properties are also leased to a number of tenants for different terms. The rental income for 2017 amounted to RMB29,352,600 (2016: RMB24,950,800). The minimum lease payments receivable under non-cancellable operating leases at the end of reporting period are as follows:

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	862.45	969.10
Over one year but within five years	221.36	708.52
Total	1,083.81	1,677.62

(3) *The Company as lessee under operating lease*

The Company leases certain leasehold land and buildings and plant and machinery under operating leases with lease terms ranging from one to five years. The operating lease payments for the year ended 31 December 2017 were as follows:

Unit: RMB'0000

Operating lease payments	Amount for the year	Amount for previous year
Leasehold land and buildings	3,373.77	3,175.26
Plant and machinery	48.29	101.18
Total	3,422.06	3,276.44

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

15. OTHER SIGNIFICANT EVENTS (continued)

6. Leases (continued)

(4) The total future minimum lease payments under non-cancellable operating leases at the end of reporting period due as follows:

Unit: RMB'0000

Item	Amount for the year	Amount for previous year
Within one year	1,488.40	2,019.43
Over one year but within five years	1,766.40	1,182.92
Total	3,254.80	3,202.35

7. Auditors' remuneration

In 2017, as considered and approved at the shareholders' general meeting, the Company agreed to reappoint Ruihua Certified Public Accountants as the auditor of the Company for the year of 2017, and the Board was authorized to fix their remuneration. The Company agreed to pay a remuneration of approximately RMB1,800,000 and RMB700,000 to the auditors for the provision of audit services for financial reporting and internal control respectively for the year ended 31 December 2017 and bear the corresponding travel expenses.

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT

1. Accounts receivable

(1) Accounts receivable by category

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision %	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis method	112,260,028.30	93.63	108,952,571.04	97.05	3,307,457.26
Subtotal	112,260,028.30	93.63	108,952,571.04	97.05	3,307,457.26
Individually insignificant but subject to separate provision for bad debts	7,633,913.25	6.37	1,309,199.73	17.15	6,324,713.52
Total	119,893,941.55	100.00	110,261,770.77	91.97	9,632,170.78

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Accounts receivable (continued)

(1) Accounts receivable by category (continued)

(Continued)

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision %	
Individually significant and subject to separate provision for bad debts					
Accounts receivable subject to collective provision for bad debts based on credit risk features:					
Ageing analysis method	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91
Subtotal	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91
Individually insignificant but subject to separate provision for bad debts					
Total	185,780,146.77	100.00	116,313,094.86	62.61	69,467,051.91

Accounts receivable in the group provided for bad debts by using ageing analysis method:

Ageing	Closing balance		
	Accounts receivable	Provision for bad debts	Percentage
Within three months	3,252,917.26		
Over three months but within six months	60,600.00	6,060.00	10%
Over six months but within one year			50%
Over one year	108,946,511.04	108,946,511.04	100%
Total	112,260,028.30	108,952,571.04	97.05%

(2) Provision for bad debts made, recovered or reversed during the year

There was no provision for bad debts made during the year; provision for bad debts recovered or reversed amounted to RMB6,051,324.09 during the year.

(3) Top five accounts receivable by closing balance of debtors

The total top five accounts receivable of the Company by closing balance of debtors amounted to RMB38,164,633.81, accounting for 31.83% of the closing balance of accounts receivable. A provision for bad debts of RMB32,843,930.64 in total was made as at the end of the year.

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables

(1) Other receivables are disclosed by category as follows

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision %	
	Individually significant and subject to separate provision for bad debts				
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method Greencool Companies	1,255,686,304.97	99.89	20,869,848.65	1.66	1,234,816,456.32
Subtotal	1,255,686,304.97	99.89	20,869,848.65	1.66	1,234,816,456.32
Individually insignificant but subject to separate provision for bad debts	1,368,000.00	0.11	684,000.00	50.00	684,000.00
Total	1,257,054,304.97	100.00	21,553,848.65	1.71	1,235,500,456.32

(Continued)

Category	Book value		Closing balance		Carrying amount
	Amount	%	Amount	Ratio of provision %	
	Individually significant and subject to separate provision for bad debts				
Other receivables subject to collective provision for bad debts based on credit risk features					
Ageing analysis method Greencool Companies	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88
Subtotal	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88
Individually insignificant but subject to separate provision for bad debts					
Total	1,307,592,083.47	100.00	21,078,675.59	1.61	1,286,513,407.88

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

2. Other receivables (continued)

(1) Other receivables are disclosed by category as follows (continued)

Other receivables in the group provided for bad debts by aging are as follows

Ageing	Closing balance		
	Other receivables	Provision for bad debts	Percentage
Within three months	1,234,528,023.02		
Over three months but within six months	267,216.11	26,721.61	10%
Over six months but within one year	95,877.61	47,938.81	50%
Over one year	20,795,188.23	20,795,188.23	100%
Total	1,255,686,304.97	20,869,848.65	1.66%

(2) Provision for bad debts made, recovered or reversed during the year

Provision for bad debts made during the year amounted to RMB2,404,016.41; there was no provision for bad debts recovered or reversed during the year.

(3) Other receivables that are written off for the year

Item	Amount
Other receivables that are written off	1,928,843.35

(4) Other receivables by nature

Nature	Book value as at the end of the year	Book value as at the beginning of the year
Security deposit	1,368,000.00	4,243,043.14
Other current account	1,255,686,304.97	1,303,349,040.33
Total	1,257,054,304.97	1,307,592,083.47

(5) Top five other receivables by debtor as at the end of the period

Name	Nature	Closing balance	Ageing	Percentage of closing balance of total other receivables (%)	Provision for bad debts Closing balance
Top 1	Inter-group current account payments	238,628,185.03	Within three months	18.98	
Top 2	Inter-group current account payments	182,281,173.16	Within three months	14.50	
Top 3	Inter-group current account payments	175,284,072.33	Within three months	13.94	
Top 4	Inter-group current account payments	159,113,744.84	Within three months	12.66	
Top 5	Inter-group current account payments	118,782,377.50	Within three months	9.45	
Total	-	874,089,552.86	-	69.53	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments

(1) Breakdown of long-term equity investments

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Investments in subsidiaries	2,513,391,236.55	59,381,641.00	2,454,009,595.55	2,576,543,954.49	59,381,641.00	2,517,162,313.49
Investments in associates and joint ventures	2,370,765,866.05		2,370,765,866.05	1,627,383,596.00		1,627,383,596.00
Total	4,884,157,102.60	59,381,641.00	4,824,775,461.60	4,203,927,550.49	59,381,641.00	4,144,545,909.49

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(2) Investments in subsidiaries

Investee	Opening balance	Increase for the year	Decrease for the year	Closing balance	Provision for impairment made during the year	Closing balance of provision for impairment
Guangdong Refrigerator	155,552,425.85			155,552,425.85		
Guangdong Air-conditioner	281,000,000.00			281,000,000.00		59,381,641.00
Guangdong Freezer	15,668,880.00			15,668,880.00		
Hisense Home Appliances	51,531,053.70			51,531,053.70		
Rongsheng Plastic	53,270,064.00			53,270,064.00		
Wangao I&E	600,000.00			600,000.00		
Jiake Electronics	42,000,000.00			42,000,000.00		
Yingkou Refrigerator	84,000,000.00			84,000,000.00		
Jiangxi Kelon	147,763,896.00			147,763,896.00		
Hangzhou Kelon	24,000,000.00			24,000,000.00		
Yangzhou Refrigerator	252,356,998.00			252,356,998.00		
Zhuhai Kelon	189,101,850.00			189,101,850.00		
Shenzhen Kelon	95,000,000.00			95,000,000.00		
Kelon Development	11,200,000.00			11,200,000.00		
Chengdu Refrigerator	50,000,000.00			50,000,000.00		
Beijing Refrigerator	92,101,178.17			92,101,178.17		
Shandong Air-conditioning	567,175,477.74			567,175,477.74		
Hisense Mould	121,628,013.09			121,628,013.09		
Shandong Refrigerator	275,000,000.00			275,000,000.00		
Zhejiang Hisense	67,594,117.94		67,594,117.94			
Kelon Property		4,441,400.00		4,441,400.00		
Total	2,576,543,954.49	4,441,400.00	67,594,117.94	2,513,391,236.55		59,381,641.00

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

3. Long-term equity investments (continued)

(3) Investments in associates and joint ventures

Investee	Opening balance	Increase in investment	Decrease in investment	Change for the year		
				Gains or losses from investment recognised using equity method	Adjustment for other comprehensive income	Other change in equity
I. Joint ventures						
Hisense Hitachi	1,627,383,596.00			732,001,382.03		-3,967,882.48
Subtotal	1,627,383,596.00			732,001,382.03		-3,967,882.48
II. Associates						
Hisense Financial Holdings		240,000,000.00		4,913,770.50		
Subtotal		240,000,000.00		4,913,770.50		
Total	1,627,383,596.00	240,000,000.00		736,915,152.53		-3,967,882.48

Investee	Change for the year				Closing balance	Closing balance of provision for impairment
	Declaration of cash dividend or profit	Provision for impairment made	Other decreases			
I. Joint ventures						
Hisense Hitachi	229,565,000.00				2,125,852,095.55	
Subtotal	229,565,000.00				2,125,852,095.55	
II. Associates						
Hisense Financial Holdings					244,913,770.50	
Subtotal					244,913,770.50	
Total	229,565,000.00				2,370,765,866.05	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

4. Operating revenue and operating costs

Item	Amount for the year	Amount for previous year
Revenue from principal operations	-2,842,989.59	34,831,354.17
Revenue from other operations	81,438,037.56	31,637,225.18
Total operating revenue	78,595,047.97	66,468,579.35
Costs of principal operations	67,328.45	32,469,093.46
Costs of other operations	70,234,395.09	22,142,699.86
Total operating costs	70,301,723.54	54,611,793.32

5. Investment gain

(1) Breakdown of investment gain

Item	Amount for the year	Amount for previous year
Gain from long-term equity investment under the cost method	131,203,478.11	44,490,678.00
Gain from available-for-sale financial assets during holding period	13,227,800.00	6,004,000.00
Gain from long-term equity investment under the equity method	736,915,152.53	534,444,157.61
Gain from disposal of long-term equity investment	594,001,248.06	16,758,719.78
Gain from investment in wealth management products		819,726.03
Total	1,475,347,678.70	602,517,281.42

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

16. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT (continued)

5. Investment gain (continued)

(2) Gain from long-term equity investments under the cost method

Investee	Amount for the year	Amount for previous year
Hisense Home Appliances	15,795,569.40	8,387,028.00
Hisense Mould	23,407,908.71	17,403,650.00
Beijing Refrigerator		18,700,000.00
Chengdu Refrigerator	92,000,000.00	
Total	131,203,478.11	44,490,678.00

(3) Gain from available-for-sale financial assets during holding period

Investee	Amount for the year	Amount for previous year
Hisense International Marketing	13,227,800.00	6,004,000.00
Total	13,227,800.00	6,004,000.00

(4) Gain from long-term equity investment under the equity method:

Investee	Amount for the year	Amount for previous year
Zhejiang Hisense		-36,319,775.98
Attend		-83,804.31
Hisense Hitachi	732,001,382.03	570,847,737.90
Hisense Financial Holdings	4,913,770.50	
Total	736,915,152.53	534,444,157.61

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

17. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

Item	Amount	Amount for previous year Notes
Profit or loss from disposal of non-current assets	787,734,808.88	
Return, reduction and exemption of taxes surpassing approval or without official approval document		
Government grants included in the gain or loss (excluding those government grants that are closely related to the enterprise's normal operation and business and are received with fixed amounts or with fixed percentage in compliance with national policies)	151,239,597.39	
Capital occupation fees received from non-financial enterprises that are included in current profits or losses		
Gain arising under the circumstance where the investment cost for acquisition of subsidiaries, associates and joint ventures is lower than the fair value of the net assets attributable to the enterprise		
Gain or loss arising from non-monetary assets exchange		
Gain or loss arising from entrusted investment or entrusted asset management		
Asset impairment provided due to forced majeure (e.g. natural disasters)		
Gain or loss arising from debt restructuring		
Corporate restructuring expenses (e.g. staff placement costs and integration expenses)		
Gain or loss arising from the difference between the fair value and transaction price in obviously unfair transactions		
Net current profit or loss of subsidiaries arising from business combination under common control from beginning of year to the combination date		
Gain or loss arising from contingencies irrelevant to the Company's normal business		
Gain or loss from changes in fair values of financial assets and liabilities held-for-trading except for effective hedging activities related to the Company's normal operations and investment gain from disposal of financial assets and liabilities held-for-trading and available-for-sale financial assets		
Reversal of impairment provision for accounts receivable individually tested for impairment		
Gain or loss arising from entrusted loan		
Gain or loss arising from changes in fair value of investment properties measured subsequently by using fair value model		
Effect on current profit or loss of one-off adjustment to current profit or loss as required by taxation, accounting and other laws and regulations		
Custody fee income from entrusted operations		
Other non-operating income and expense other than the aforementioned items	113,236,402.15	
Other profit or loss items within the meaning of non-recurring profit or loss		
Subtotal	1,052,210,808.42	
Effect of income tax	48,767,136.54	
Effect of minority interests (after tax)	18,720,553.36	
Total	984,723,118.52	

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

17. SUPPLEMENTARY INFORMATION (continued)

2. Return on net asset and earnings per share

2017

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	35.12	1.47	1.47
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	17.80	0.74	0.74

2016

Profit for the reporting period	Weighted Average of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	24.23	0.80	0.80
Net profit attributable to ordinary shareholders of the Company after non-recurring profit or loss	22.23	0.73	0.73

Notes to the Financial Statements for 2017

(Unless otherwise expressly stated, amounts are denominated in RMB)

17. SUPPLEMENTARY INFORMATION (continued)

3. Five-year financial summary

Unit: RMB'0000

Statement item	2017	2016	2015	2014	2013
Total operating revenue	3,348,759.04	2,673,021.95	2,347,160.29	2,653,442.09	2,436,002.13
Total profits	223,229.14	127,034.15	62,365.42	77,123.56	129,941.28
Income tax	18,106.71	12,874.77	7,937.78	5,972.51	5,361.89
Net profit	205,122.43	114,159.38	54,427.64	71,151.05	124,579.39
Net profit attributable to equity holders of the parent	199,753.01	108,773.21	58,033.51	67,247.86	121,566.96
Minority interests	5,369.42	5,386.17	-3,605.87	3,903.19	3,012.43

Continued from above table

Statement item	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014	As at 31 December 2013
Total assets	2,147,366.68	1,905,505.86	1,429,281.70	1,326,679.40	1,220,803.09
Total liabilities	1,452,029.68	1,373,159.85	981,900.77	932,621.34	902,469.32
Net assets	695,337.00	532,346.01	447,380.94	394,058.06	318,333.77
Total equity attributable to equity holders of the parent	644,530.37	486,746.62	404,401.77	345,836.30	274,873.11
Minority interests	50,806.63	45,599.39	42,979.17	48,221.76	43,460.66
Total Equity	695,337.00	532,346.01	447,380.94	394,058.06	318,333.77